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October 19, 2011

U.S. MAIL ☒ FACSIMILE ☐ FEDERAL EXPRESS ☐

Jocelyn Boyd  
Chief Clerk and Administrator  
South Carolina Public Service Commission  
P.O. Drawer 11649  
Columbia, SC 29211

Re: Kiawah Island Utility, Inc.  
Our File No.: 5435-007

Dear Ms. Boyd:

Enclosed please find Petitioner's exhibits and pre-filed direct testimony of the following witnesses:

Becky Dennis  
Steve D. Heyboer  
J. Mitchell Bohannon, III  
Gary C. White  
John F. Guastella

With kind regards, I am,

Sincerely,

PRATT-THOMAS WALKER, P.A.



G. Trenholm Walker

Enclosures (As Stated)  
GTW\njdm

c: F. David Butler, Esq.  
C. Duke Scott, Executive Director (ORS)  
Jeffrey M. Nelson, Esq. (ORS)  
Shannon Bowyer Hudson, Esq. (ORS)  
Michael A. Molony, Esq. (KPOG)  
Jason Scott Luck, Esq. (KICA)  
John P. Seibels, Jr., Esq. (KICA)  
Becky Dennis  
John F. Guastella  
Steve Heyboer  
Robert L. Brooke, Esq.  
Townsend Clarkson

**BEFORE**

**THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**

**DOCKET NO. 2011-317-WS**

IN RE: Application of Kiawah Island Utility, )  
Incorporated for Adjustment of Rates and )  
Charges )  
\_\_\_\_\_ )

PRE-FILED TESTIMONY  
AND EXHIBITS OF  
KIAWAH ISLAND UTILITY, INC.

FILED  
2011  
JUN 14  
11  
P.M.  
SOUTH CAROLINA  
PUBLIC SERVICE COMMISSION

KIAWAH ISLAND UTILITY, INC.

DOCKET NO. 2011-317-W/S

PRE-FILED TESTIMONY OF BECKY DENNIS

BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

Testimony Prepared: October 19, 2011

Hearing Date: November 30, 2011

Exhibits: Schedules incorporated into Application (not re-submitted)

THIS TESTIMONY IS FILED PURSUANT TO PSC NOTICE DATED AUGUST 15, 2011. THE APPLICANT RESERVES THE RIGHT TO SUPPLEMENT THIS TESTIMONY AND TO PROVIDE REPLY TESTIMONY TO THE TESTIMONY THAT MAY BE PRE-FILED BY THE COMMISSION STAFF, ORS, AND INTERVENORS.

**MR. WALKER:** Ms. Dennis, would you please give us your full name and current occupation?

**MS. DENNIS:** My name is Becky Dennis. I am employed as the General Manager of Kiawah Island Utility, Inc.

**MR. WALKER:** Where is the Utility's office?

**MS DENNIS:** The Utility's office is located at 31 Sora Rail Road, on Kiawah Island.

**MR. WALKER:** How many persons does the Utility employ?

**MS DENNIS:** There are currently 14 full-time employees.

**MR. WALKER:** Give us an overview of the water system provided by the Utility and the customers serviced by it.

**MS. DENNIS:** On December 31, 2010, the Utility served 3,780 water customers.

Most of these are residential customers. The Utility services its water customers through approximately 50 miles of water pipelines on Kiawah Island. The

average daily flow in the test year 2010 was 2.473 MGD for potable water, with an additional .805 MGD of combined effluent and well water to supplement golf course demands. The peak day demand was 4.567 million gallons, which occurred on July 25, 2010.

The water system is operated under South Carolina DHEC Permit No. 1010008.

**MR. WALKER:** Tell us about the wastewater customers and wastewater facilities of the Utility.

**MS. DENNIS:** During the test year ending December 31, 2010, the Utility served 3,228 sewer customers. Most of these are residential customers. The Utility's sewer system is comprised of gravity collection mains, force mains, and treated effluent transfer mains, aggregating approximately 58 miles, 49 sewage-pumping stations, and a wastewater treatment facility. The wastewater treatment facility is located at the central plant at 31 Sora Rail Road. During the test year (2010), the average daily flow was 0.722 MGD with a maximum flow day of 1.208 MGD, which occurred on July 5, 2010.

The Utility's wastewater facility's capacity is rated at 1.7 million gallons per day and operates under S.C. DHEC Permit #ND0017361.

**MR. WALKER:** How long have you been employed by the Utility?

**MS. DENNIS:** I have been employed by the Utility since 1978. My first position was Utility Clerk/Utility Works Operator Trainee. In 1979 I was promoted to

Assistant Plant Operator/Clerk/Lab. In 1984 I was promoted to Supervisor Customer Service/Plant operations. In 1993 I was promoted to General Manager.

Over the years, I have been involved in every aspect of the Utility's operation on Kiawah Island.

**MR. WALKER:** Do you receive compensation from any of the Kiawah entities other than the Utility?

**MS. DENNIS:** No.

**MR. WALKER:** What responsibilities have you had during your employment by the Utility?

**MS. DENNIS:** From 1978 to 1993 I did the following:

- Meter installation repair, reading, billing, receivable, customer service;
- Line repairs (both water and waste water);
- Performed laboratory duties - daily, weekly, monthly, monitoring;
- General maintenance duties - mowing, weedeating, pulling sand spurs;
- General plant upkeep; and
- General accounts payable duties.

Since 1993 I have served as General Manager with responsibility for the management and supervision of KIU's entire operations, which include:

- Assist KIU's officers and KRA management personnel in establishing and implementing policies, and keeping them informed of all major utility operating and financing activity;

- Monitor the activities of all areas of the Utility daily and make necessary changes as warranted;
- Ensure that water and wastewater operations meet all regulatory requirements while striving to perform beyond the expected level of service required by each;
- Coordinate with regulatory agencies as necessary to stay abreast of the ever-changing regulations associated with water and wastewater facilities;
- Coordinate plant inspections with DHEC, PSC, OSHA, and other regulatory agencies;
- Manage operating costs to ensure that each dollar spent adds value to the utility;
- Supervise employees, making sure they have the proper equipment to perform their jobs safely and efficiently;
- Make sure employees are properly trained to handle not only the day-to-day situations that arise, but also to be able to respond with confidence during an emergency;
- Handle customer inquiries and complaints promptly and efficiently;
- Generate data necessary to complete rate applications as required by revenue shortfalls; and
- Coordinate all data inquiries and provide requested information associated with all rate applications.

**MR. WALKER:** Are you active in any associations involving public utilities that

provide water and sewer services?

**MS. DENNIS:** I am Past President of the Water Environment Association of South Carolina. It is a statewide organization with approximately 3,000 members. Additionally, I am a member of the Water Environment Federation, the American Waterworks Association, the South Carolina Rural Water Association, and the Water Quality Association.

**MR. WALKER:** Have you received any special training for running the Utility?

**MS. DENNIS:** In addition to the experience I have acquired on this job in working with the Utility for more than 30 years, I have also obtained an "A" certification from the South Carolina LLR, Environmental Certification Board for utility water and wastewater. I would like to point out that two other employees, Mike Agin and Vicky Dyke, have obtained the same certification. Six other employees have also obtained water or wastewater certifications at various levels from the South Carolina LLR, Environmental Certification Board for utility water and wastewater. We take our work seriously and pride ourselves on the skills of our employees. Our customers demand efficient, prompt, high quality service. The only way to accomplish this is through qualified employees.

**MR. WALKER:** Is the Utility's operation monitored by DHEC?

**MS. DENNIS:** Yes.

**MR. WALKER:** Has the Utility Company ever received an unfavorable rating from DHEC?



**MS. DENNIS:** No. DHEC performs exhaustive analyses of the water system and the wastewater facilities and we have never received an unfavorable determination. In fact, in 2008, 2009, and 2010, the Utility received the Facility Excellence Award from DHEC in recognition of facility personnel who are striving for excellence in the protection of the environment and are meeting or exceeding compliance expectations.

**MR. WALKER:** Does the Utility keep a close eye on quality control?

**MS. DENNIS:** Definitely. In addition to the normal quality controls, the Utility has been a leader in compliance in the monitoring for lead and copper required by the Environmental Protection Agency. The Utility was one of the first utilities in the state to qualify for ultra-reduced monitoring, based on its exceptional compliance.

**MR. WALKER:** Does the Utility keep track of customer complaints or comments?

**MS. DENNIS:** Yes. Most calls or letters from customers relate to the customers' bills. Most felt they had not consumed the quantity of water reflected on the bills. We then checked the meters and determined the bills were accurate. Prior to changing our statement forms we had many comments relating to damage to the forms by the Postal Service. We do our best to be conscientious and attentive and to provide the best service that we can. The absence of any significant complaints attests to the quality of the services rendered to our roughly 3,800 customers.

**MR. WALKER:** Where does the Utility obtain its potable water?

**MS. DENNIS:** St. Johns Water Company supplies the Utility with all of its potable water. At the Utility's inception in 1976, St. Johns Water Company and the Utility agreed for St. Johns to provide potable water to the Utility. The contract for this provision was signed and went into effect in 1978.

**MR. WALKER:** Is the price of the potable water that the Utility purchases from St. Johns Water Company fixed?

**MS. DENNIS:** No, it increases on an almost annual basis. We are required under our contract with St. Johns to pay a monthly operation and maintenance expense that also increases on a periodic basis.

**MR. WALKER:** How does the Utility deal with the increase in the rate for potable water imposed by St. Johns?

**MS. DENNIS:** In our last rate application ten years ago we requested that the Commission amend our approved rates to provide a mechanism for increasing our rates to our customers by the exact amount of the increase imposed by St. Johns. The Commission granted this request. To implement the increase, the Utility is required to follow certain notice procedures, which it does each time. As a result, the Utility has been able to increase its rates for potable water to its customers by the exact amount of the increase imposed by St. Johns. This one adjustment has made a big difference and had the effect of reducing the cost to our customers since the Utility has not had to go through the expense and time of a contested rate

proceeding to obtain this necessary adjustment.

**MR. WALKER:** What are the primary reasons for the Utility to now seek an adjustment to its rates and charges?

**MS. DENNIS:** We have gone ten years without seeking an increase, except the pass-through cost of potable water. Since the Company's last rate increase in 2001, the Utility has made significant additional investments in utility plant and facilities, and has experienced substantial increases in operating expenses. The net investment in utility plant and facilities has increased by \$5.1 million. These improvements include: ASR (aquifer storage and recovery) well #2, wastewater treatment and sewage pump station upgrades, purchase of land associated with previously leased parcels, and numerous distribution and collection system lines to allow the Utility to provide service to its customers. Over the past ten years, operating expenses have increased over 50%; taxes, other than income taxes, have increased nearly 100%; depreciation has increased about 60%; purchased power has increased nearly 90%; and wages and benefits have increased about 37%. The annual average increase for these capital expenditures and operating expenses ranges from 3.2% to 7.1% per year. While increases in revenues due to customer growth have partially offset these cost increases, the proposed Phase I rate increase, which is only about 2.1% on an average annual basis, is necessary to cover the costs of operations and provide a reasonable operating margin and a reasonable

return.

**MR. WALKER:** Do the schedules that were submitted as part of the Application cover the adjustments the Utility is requesting in what is described as its Phase 1?

**MS. DENNIS:** The schedule of Phase I Proposed Rates and Charges (Appendix B to the Application) that is based on a Test Year ending December 31, 2010, sets forth the particular adjustments sought by the Utility. In addition to the increase in the amount of certain rates and charges, the Utility is proposing slight modifications to several of the miscellaneous charges.

**MR. WALKER:** What are the reasons for the adjustments the Utility is proposing for the miscellaneous charges, such as reconnect fees?

**MS. DENNIS:** Considerable time is involved in the reconnection process. Staff and equipment time are required twice, once to turn off the water and again to reinstate service. Additionally, a minimum of three separate attempts are made to arrange payment to avoid termination of service. The modest increase from \$25 to \$50 is actually less than the estimated \$78.63 presented in exhibit 1.76 of the first data request.

A second change was requested in the miscellaneous charges section of the rate schedule was to cover the backflow monitoring fee. This \$0.20 fee is now being captured in the requested rates. This fee has been a source of aggravation for our customers and the company decided to

remove it as a separate charge for simplicity.

**MR. WALKER:** How does the Utility provide water for golf course irrigation?

**MS. DENNIS:** The Utility provides a blended source of water for golf irrigation. This blend is made up of effluent, deep well water, and potable water, as available and needed. The Utility has a series of holding cells located at our central site on Sora Rail Road that holds the water used by all five courses for irrigation purposes. Each source (effluent, well, and potable) is metered daily as it flows into the holding cells, where it is stored until needed by the courses. Additionally, for billing purposes it is metered daily as it is used by the courses.

**MR. WALKER:** Does the Utility impose a basic facilities charge for golf course irrigation?

**MS. DENNIS:** Yes. The Utility charges a basic facilities charge that is assessed per golf course customer that offsets the cost of the infrastructure and equipment in place to provide service.

**MR. WALKER:** Are all five of the golf courses on Kiawah Island customers of KIU?

**MS. DENNIS:** No. The Ocean Course purchased deep well no. 2 in a sale approved by the Commission on May 18, 1999, in Docket No. 1999-086-W. The Ocean Course then ceased being a day-to-day customer of the Utility and depends entirely on this well, but remains available for disposal of treated effluent as necessary. The Ocean Course's cessation of services

was approved in an agreement among it, the Utility, and KRA.

Additionally, Osprey Point Golf Course does not currently take the effluent blend. They made the decision to construct their own well to ensure adequate flows to maintain their course. The flows blended for use on the courses is often inadequate to supply all five courses at once, although all five remain as active discharge fields for effluent if necessary.

**MR WALKER:** Does the Utility operate and maintain storage facilities for potable water?

**MS. DENNIS:** Yes, we have to, for many reasons. We have a limited supply of potable water. Our contract with St. Johns caps the total amount that the Utility can receive on a given day to 3.6 million gallons at the single, existing connection point. In the high season, especially in periods of low rainfall, our daily usage can often exceed what we can obtain from St. Johns. We also frequently experience interruptions in supply as a result of breaks in the supply line to Kiawah Island. The Utility has three above ground storage facilities totaling 4.5 million gallons. In recent years the Utility has also depended heavily on ASR. ASR is a below ground storage method. In periods of low demand, we pump excess potable water from St. Johns into our two ASR wells. The potable water in these wells is later accessed to provide potable water in times of high demand or when the supply line is out of service.

**MR. WALKER:** Have there been problems with the existing supply line from

St. Johns that runs along the entrance road to Kiawah Island, across the bridge, and down the Kiawah Island Parkway to the main plant?

**MS. DENNIS:** Yes. The Utility has a single 16" ductile iron supply line installed in 1978 that runs approximately 3.3 miles from the connection of our dedicated supply line to the St. Johns supply main at the intersection of the entrance parkway and Bohicket Road. Because the existing supply line is more than 33 years old, we are experiencing failures that disrupt service, cause washouts and sinkholes, and require emergency repair. Not only is our supply of water becoming more unreliable but we are having to incur costs in making these emergency repairs. These incidents are only going to become more and more common as the supply line continues to age.

**MR. WALKER:** Has the Utility studied this problem?

**MS. DENNIS:** Yes, we have had the engineering firm of Thomas & Hutton look at this issue extensively. Thomas & Hutton determined that the cost of replacing the existing supply line in the same location was over \$5 million. They also determined that for roughly 20% more, the Utility could construct a new replacement supply line in a different location that would connect to the Down Island Pump Station on Governor's Drive on the east end of the island. Not only were the total costs to install the secondary line comparable to the cost of replacing the existing line, the secondary line also allows the Utility to have a redundant feed and more evenly distribute the water supply

to the entire Island by providing a direct feed to the existing Down Island Pump Station. This new supply line would serve as a replacement in the event of a total failure of the existing line and as a redundant source during the times the old supply line is being repaired.

**MR. WALKER:** Does the Utility want to proceed with the new replacement line that you have described?

**MS. DENNIS:** Yes. We believe it is essential to providing a reliable, adequate supply of potable water to our customers. Also, St. Johns occasionally experiences breaks in its supply main leading to our existing supply line. The connection point for our proposed replacement line is closer to St Johns' source of potable water and in a newer arm of St. Johns' system. The new line would be less subject to interruption from breaks in St. Johns' transmission mains.

**MR. WALKER:** Do the rates that the Utility is seeking include the cost of this new supply line?

**MS. DENNIS:** Yes, but not immediately. The Utility is requesting a two phase rate increase. The first phase would not include the cost of construction of the new water supply line. It would include only soft costs that are being incurred on a current basis and are known and measurable. The second phase would only increase the rates for potable water and would be based on the anticipated actual costs incurred in the construction and placement in service of the proposed secondary supply line. This two



phase approach will allow the Company to commence construction and will eliminate the cost to the customers of a second immediate rate case.

The Schedule of Phase II Proposed Rates and Charges (appendix B-1) sets forth the particular adjustments to the water rates sought by the Utility to become effective only upon the completion of construction, all operational permits and subsequent verification of cost by the Office of Regulatory Staff ("ORS") with confirmation to the Commission. The Utility is requesting the Phase II proposed rates be contingently approved at this time and to become effective only when the following occurs:

- i. Construction is complete,
- ii. All operational permits have been obtained,
- iii. Supply line has been placed in service,
- iv. ORS has audited and approved actual expenditures,
- v. 30 day advance secondary notice sent to customers, and
- vi. Final approval by the Commission.

**MR. WALKER:** Why is the Utility seeking approval of the Phase II rates instead of waiting and filing a separate later rate application?

**MS. DENNIS:** Phase II approval at this time (upon fulfillment of numerous conditions I mentioned) is necessary for the Utility to attract financing for this project. It is noted that because financing is analyzed on the Utility's combined operations, not individually for water and sewer operations, the operating margin is determined according to total Utility operations.

Preliminary discussions with the Company's lender indicate that its approval would be contingent upon a favorable regulatory decision on the Phase II request. A formal loan request will be submitted shortly.

Also, the Utility believes it is in the best interests of the customers to avoid the expense of a second rate application and the delay it would cause in the construction of the much needed supply main. The expenses of these rate proceedings are ultimately borne by the Utility's customers.

**MR. WALKER:** Have you compared the proposed costs to other utilities using the same water supply?

**MS. DENNIS:** Yes. I obtained from several local utilities their costs of 11,000 gallons (our residential average monthly consumption), using their rates. Below is that comparison:

Location	Water	Sewer	<b>Total</b> W & S Bill
Kiawah Island Utility, Inc. - Current Rates	53.98	29.15	83.13
Seabrook Island - Inside City	54.60	32.50	87.10
Kiawah Island Utility, Inc. - Proposed Rates, Ph 1	66.46	30.81	97.27
Mt . Pleasant	49.02	55.57	104.59
Kiawah Island Utility, Inc. - Proposed Rates, Ph 2	75.15	30.81	105.96
SJWC with SIUC Outside Sewer	76.35	34.10	110.45

Charleston Water - Inside	28.22	95.11	123.33
Folly Beach	52.34	74.07	126.41
Isle of Palms	59.79	74.58	134.37
Charleston Water - Outside	50.77	131.11	181.88
Sullivan's Island	100.93	91.65	192.58
SJWC with CWS Outside Sewer	76.35	137.44	213.79

**MR. WALKER:** Where would the Utility's rates stand in comparison to the others you list if the requested adjustment to rates were granted?

**MS. DENNIS:** The Utility's combined rates for water and sewer would still be lower than most of the other providers.

**MR. WALKER:** The Utility has a management agreement with KRA. Do any of the employees of KRA perform services for the Utility?

**MS. DENNIS:** Yes, there are many areas where KRA employees furnish services to the Utility. These persons work for KRA and are not paid by the Utility, even though their services are vital to the successful operation of the Utility.

**MR. WALKER:** What services do these KRA employees provide for the Utility Company?

**MS. DENNIS:** KRA provides KIU's upper level management, and its

personnel include the Utility's officers. It establishes all major policies and approves all major decisions with respect to KIU's financial and physical operations. KRA's development department coordinates all water and sewer line engineering and construction (including design, bidding, and permitting) according to DHEC specifications. The development of a subdivision entails the proper scheduling of not only water and sewer installations but also power, drainage, and roads. DHEC does not issue operating permits for water or sewer until the roads are complete and the shoulders are grassed. KIU must submit a letter accepting the lines for operation and maintenance prior to DHEC approval. KRA's development department also acts as liaison for permitting, which includes zoning, land clearing and disturbance, Office of Ocean and Coastal Resource ("OCRM"), and any required variances, Town right-of-ways and other permits necessary to insure that each area is developed according to established town, county, state, and federal regulations.

KRA's personnel department prepares the bi-weekly payroll of KIU employees. This service includes reconciling hours, managing benefits, and payroll changes. The KRA employees spend considerable time managing the benefits program offered to the Utility's employees while keeping the costs of service down.

KRA's Human Resources Department has negotiated better health and dental insurance coverage and established a more efficient provider for

the 401(k) and FSA plans than the Utility could on its own. All of these are a considerable benefit to the Utility and its employees. If KIU were to negotiate insurance and retirement plans independently without the benefit of its parent company, the rates would be higher and the benefits lower. KRA is in a far better negotiating position with insurance companies because of the number of employees they place coverage for. If KIU acted alone, it would pay higher rates since it would be providing coverage for only up to 14 employees.

KRA also obtains favorable insurance rates for property and liability, which KIU could not obtain if it were to go out on its own.

Because of the volume of business KRA does annually, KRA is able to negotiate favorable rates on loans for capital improvements necessary for the Utility. Many of these capital improvements are required by an agreement with the Town of Kiawah or by state or federal guidelines requiring certain improvements according to customer growth.

KRA assists in preparing the annual budget. KRA monitors the spending of KIU and provides financial management reviews monthly. KRA also analyzes the performance and capacity of our systems and provides us with a plant expansion capital analysis and review.

KRA also furnishes long range planning services to the Utility.

KRA's marketing department assists KIU in communication as required by federal and state regulation, EPA, and DHEC. Federal

regulations require each water utility to develop and publish a Consumer Confidence Report ("CCR") to all customers. This report is exhaustive in detail and information concerning the source of water supply. KRA's marketing department also provides other graphic and production support for other customer communications, including the annual report. They develop enlarged graphs, maps, and charts for our use when needed.

**MR. WALKER:** Have these services provided by KRA served in other ways to reduce the cost to the customer?

**MS. DENNIS:** Yes. The Utility hires and pays fewer personnel than would be absolutely necessary if the Utility were to terminate the management agreement. If the Utility were to hire these persons, the Utility would have the added cost of both their salaries and benefits. We also doubt that the Utility could offer the salary levels that would attract persons with qualifications and experience equal to those of the KRA staff who provide us these many services (e.g., engineers, CPA's, PHR's, and marketing professionals).

**MR. WALKER:** Has the Office of Regulatory Staff obtained information from the Utility and audited its books and records during the pendency of this application?

**MS. DENNIS:** Yes, exhaustively. I have spent almost all my time over the last three months responding to ORS's very thorough requests. To their credit, they have left no stone unturned. While demanding on me and

others with the Utility, the audit process has been cordial and constructive.

**MR. WALKER:** Have you worked with John Guastella, the consultant employed by the Utility, to assist in the preparation of the Utility's application for an adjustment in rates and charges?

**MS. DENNIS:** Yes, I worked very closely with John Guastella and Gary White, his colleague, in providing them the information they needed to prepare the schedules, exhibits, and appendices that are part of the rate application. John and Gary has also assisted with the 2001 rate application and testified on behalf of the Utility.

**MR. WALKER:** Do the schedules, exhibits, and appendices in the rate application accurately reflect the information you provided?

**MS. DENNIS:** Yes. I checked through their work thoroughly to assure the accuracy of historical and proforma figures used to establish KIU's cost of operations and revenue requirement.

**MR. WALKER:** Why do you believe the requested increase in rates and charges is necessary?

**MS. DENNIS:** For all the reasons stated in our Application. The continued smooth operation of the Utility and provision of quality services require a positive operation margin. We have a very demanding clientele on Kiawah Island. We intend to provide the superior service that they have come to expect and receive from us over the years, yet we cannot continue to do so if the Utility does not cover its cost of operations, does not provide a fair

return to its owner, and cannot attract capital or loans for the facilities that are necessary to serve this premier resort community.

ENDS OF DIRECT TESTIMONY



KIAWAH ISLAND UTILITY, INC.

DOCKET NO. 2011-317-W/S

PRE-FILED TESTIMONY OF STEVE D. HEYBOER

BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

Testimony Prepared: October 19, 2011

Hearing Date: November 30, 2011

Exhibit: Description and value of management services

THIS TESTIMONY IS FILED PURSUANT TO PSC NOTICE DATED AUGUST 15, 2011. THE APPLICANT RESERVES THE RIGHT TO SUPPLEMENT THIS TESTIMONY AND TO PROVIDE REPLY TESTIMONY TO THE TESTIMONY THAT WILL BE PRE-FILED BY THE COMMISSION STAFF, ORS, AND INTERVENORS.

**MR. WALKER:** Mr. Heyboer, would you please provide your full name, business address and position with the Utility?

**MR. HEYBOER:** My name is Steve D. Heyboer, and my business address is 14 North Adger's Wharf, Charleston, South Carolina, 29401. I am the Chief Financial Officer of the Utility.

**MR. WALKER:** Do you receive any compensation from the Utility for the services that you perform?

**MR. HEYBOER:** No. Kiawah Resort Associates, LP receives an annual management fee that covers my services and those of many others who handle business matters for the Utility but are not on its payroll.

**MR. WALKER:** Do you hold a position with Kiawah Resort Associates, LP?

**MR. HEYBOER:** Yes. I am also the Chief Financial Officer of Kiawah Resort Associates, L.P., known as KRA. KRA owns all of the outstanding shares of stock in Kiawah Island

Utility, Inc. KRA purchased the shares in the Utility in 1988 when it acquired the real property and other assets of the then-developer of Kiawah Island and took over as developer.

**MR. WALKER:** What is the Utility's service area?

**MR. HEYBOER:** Kiawah Island.

**MR. WALKER:** When was the last time the Utility applied to the PSC to increase its rates and charges?

**MR. HEYBOER:** The last rate application was submitted in 2001 based on 2000 as the test year. The rates and charges that are currently in effect for the Utility were approved by the Commission on April 18, 2002, in Order No. 2002-285, in Docket No. 2001-164-W/S.

**MR. WALKER:** Since the last rate case in 2001 has the customer base of the Utility increased?

**MR. HEYBOER:** Yes, during that time, especially through 2008 or so, there was an increase in the number of residential customers as more houses were built on the island. In addition during this time, a premier international resort hotel named The Sanctuary was constructed and completed on the beachfront in the middle of the island. As a result of this and other growth, the Utility has constantly had to extend its service lines and expand the equipment and other facilities necessary to serve this increasing demand and maintain the quality of service.

**MR. WALKER:** Who are the officers of the Utility?

**MR. HEYBOER:** The following persons serve as officers of the Utility, without compensation from the Utility:

Charles P. Darby, III	President
Leonard L. Long, Jr	Vice-President
Lisa Bryant	Secretary
Townsend P. Clarkson	Treasurer

The sole Director of the Utility is Charles P. Darby, III, who is Chairman of the Board. Becky Dennis is the Manager of the Utility.

**MR. WALKER:** How does the Utility obtain its potable water?

**MR. HEYBOER:** The Utility procures its potable water from St. Johns Water Company ("St. Johns"). St. Johns obtains its water from the Charleston Water Systems of the City of Charleston ("CWS"), formerly known as the City of Charleston Commissioners of Public Works. The St. Johns water lines run across Johns Island to a delivery point near Kiawah Island. The Utility has a main transmission line constructed in 1978 that extends from the delivery point to the Utility's plant on the island.

**MR. WALKER:** Is the Utility seeking an increase in its rates and charges?

**MR. HEYBOER:** Yes.

**MR. WALKER:** Why is the Utility seeking an increase in its rates and charges?

**MR. HEYBOER:** In the ten years since the last rate proceeding, the Utility has made significant additional investments in utility plant and facilities. During this time the Utility has experienced substantial increases in operating expenses. These expenses continue to increase and the Utility needs to generate more revenues to cover these costs

in order to continue to fulfill the expectations and demands of its customers. The net investment in utility plant and facilities has increased by several million dollars. Additionally, the Utility has determined that it needs to construct a second supply line that can serve as a long term replacement of the 33 year old existing supply line and a short term redundant supply line to ensure the island has a dependable, consistent source of potable water. The Utility cannot obtain the loans and capital necessary to provide high quality water and sewer services to its customers without an increase in the rates and charges.

**MR. WALKER:** In the 23 years that KRA has owned the Utility, has the Utility ever paid a dividend or made a distribution to KRA?

**MR. HEYBOER:** No.

**MR. WALKER:** Does the Utility have binding commitments to St. Johns Water Company in addition to its obligation to purchase water from it.

**MR. HEYBOER:** Yes, The Utility pays a pro-rata share of St. Johns' operation and maintenance charges. Since the last rate application, this monthly charge has increased 32% from \$8,532 to \$11,232. This increase is not covered by the pass-through for increases in the cost of purchased water from St. Johns. In addition, the Utility must pay for capital costs, improvements, and maintenance of the 45 miles of transmission lines and related delivery facilities of St. Johns on Johns Island. The Utility's share of these costs is based on its percentage of water purchased to the total volume SJWC purchases from CWS. The Utility's share is currently 51%.

**MR. WALKER:** Would you give us an example of some of the other costs of the Utility that have increased since the last rate case that was based on the test year of 2000?

**MR. HEYBOER:** Taxes, other than income taxes, have increased nearly 100%; purchased power has increased nearly 90%; and wages and benefits have increased about 37%.

**MR. WALKER:** Please tell us about the capital projects that the Utility has paid for and completed in the ten years since the last rate proceeding.

**MR. HEYBOER:** We compiled the following table that outlines the major projects including the time of their construction and their cost:

May-04	\$494,067	ARS storage for emergency and peak shaving periods of operations
2002-2005	\$55,440	Refurbish fire pump and added pump to Down Island Pump Station
2003-2005	\$301,215	Line extensions to provide service to customers
Sept. 2003	\$32,375	Upgrades allow remote monitoring and control of water system
Dec. 2003	\$31,500	Enhancements necessary to accommodate ASR installation and controls
2002-2006	\$26,945	To restore concrete structures destroyed by sewer gases
Dec. 2006	\$153,214	Upgraded to allow for increase in treatment capacity to 1.7 MGD
2002-2005	\$226,772	To restore concrete structures and components destroyed by sewer gases
2003-2005	\$1,205,075	Sewer collection lines and sewage pump stations to provide service to customers
2002-2009	\$27,566	Metering required for billing purposes, DO booster to operate in DHEC permit limits

**MR. WALKER:** In addition to the foregoing, are there capital projects that you have completed during 2011 that are in service or about to be put in service?

**MR. HEYBOER:** Yes. They include the following:

Capital Projects	Cost	Placed in service	Life	Water	Sewer
Rhetts Bluff Pump station upgrade	\$43,544	9/29/11	30 Years		X
Screener	\$76,039	9/1/2011	10 Years		X
GIS System	\$16,866	9/1/2011	5 Years	X	X
Air Compressor	\$3,379	9/1/2011	5 Years	X	X

**MR. WALKER:** Does the Utility have outstanding bank loans?

**MR. HEYBOER:** Yes. The Utility has a loan agreement with RBC Bank (USA) for capital improvement loans up to \$8.850 million, with a current outstanding principal balance on December 31, 2010, of \$8.348 million. The Utility pays RBC about \$415,800 in annual interest and about \$400,000 in annual principal. These loans allowed for capital improvements to be constructed that have enhanced the quality and service to our customers of the Utility.

**MR. WALKER:** When do these loans with RBC mature?

**MR. HEYBOER:** They are due on June 30, 2014. The Utility has an option to extend the loan maturity date if the Utility can demonstrate to RBC that it has sufficient earnings.

**MR. WALKER:** Near the beginning of your testimony you mentioned the management agreement between KRA and the Utility. What is the annual amount charged by KRA per the terms of that agreement?

**MR. HEYBOER:** \$100,000.

**MR. WALKER:** Have you prepared a summary of the some of the services performed under the KRA management agreement that includes the value of such services?

**MR. HEYBOER:** Yes. I have attached as an Exhibit to my testimony the analysis that I prepared for ORS. My analysis includes services provided to the Utility related to information technology services, human resources, marketing, land development, legal, payroll, direct management by partners and executives in KRA, mail center, and accounting.

**MR. WALKER:** Does the management arrangement provide value to the Utility beyond the services listed on Exhibit 1?

**MR. HEYBOER:** Yes. The value of the KRA management agreement and relationship with KRA exceed the value set forth in Exhibit 1. The affiliation between the two entities under this management arrangement results in significant savings that would not otherwise occur. If the Utility were to obtain the same services either through hiring its own employees or retaining outside vendors, its costs would be considerably higher. The current relationship allows the Utility to use the purchasing power of the larger entities involved in the development to buy insurance at lower rates. KRA also arranged financing on favorable terms for the Utility.

**MR. WALKER:** Do you believe that the Utility will succeed in obtaining favorable conventional financing for the new supply line without the Commission's recognition of the new line as beneficial and needed, and approval of the related Phase 2 rate increase proposal?

**MR. HEYBOER:** No. The Utility cannot construct the line without a construction loan. The cost of the project is estimated at \$6.5 million. I have been involved in obtaining financing for KRA, its related entities, and the Utility, for more than 10 years. In my opinion, a bank will not extend the necessary construction loan unless it is reasonably assured that the rates of the Utility will include amounts to pay these two loans.

**MR. WALKER:** Do you believe the adjustment to the rates and charges proposed by the Utility to be reasonable?

**MR. HEYBOER:** I do. The financials submitted as part of the application tell the story. The Utility has been only marginally profitable. The adjustments we are proposing accomplish a return and operating margin on a par with other private water and sewer companies. The Utility is entitled to earn a reasonable return as with any other business and one which provides adequate earnings and also, therefore, acceptable interest coverage. Just as important, we believe that a financially self-sustaining utility is in the best interests of the Kiawah community and absolutely essential for the Utility to provide the high quality services its customers expect and to which they are entitled.

END OF DIRECT TESTIMONY



## AUDIT REQUEST # 6

Kiawah Development Partners through a Management Services Agreement provides numerous management and administrative services to Kiawah Island Utility Company. The services provided under this contract include services within the following areas:

- Executive Management
- Accounting
- Payroll
- Human Resources
- Information services
- Engineering
- Marketing
- Legal
- Courrier Service

The annual contract amount of \$100,000, which has not been increased in over 10 years, provides the Utility access to management level expertise and services in each of the above disciplines at a fraction of the cost it could otherwise obtain either through internal hires or outside consultants.

Although this is a contracted amount and not per se a cost allocation it should be noted that the \$100,000 represents less than 1% of Kiawah Development Partners' cost of these departments.

The attached sheets provide details as to the services provided and support for the contract amount.

**Summary of the departments and the related cost  
of services performed in support of Utility Company**

Department	Cost of Service
Information Systems	\$ 2,184
Human Resources	10,836
Marketing	1,620
Land Development	7,384
Legal	6,723
Payroll	3,260
Partners	28,080
Executive	23,400
Mail Center	4,265
Accounting	18,694
	<u>\$ 106,446</u>

## Information Services

### Services Performed:

Ensures that computers, servers, and phone lines remain operational including the SCADA systems.

### Method used to determine cost of services:

IT utilizes a work order system, therefore each Utility request can be identified.

The average hourly rate for the IT staff is marked up by the cost of employee benefits (20%) and then multiplied by the total hours of work performed for KIU.

### Cost of services:

Avg. Hourly Rate	39.57
Benefit Factor	<u>1.2</u>
Hourly Equivalent Rate	\$ 47.48
Total Hours	<u>46</u>
Cost of services provided by IT	<u>\$ 2,183.99</u>

## Human Resources

### Services Performed by Human Resources for KIU:

- Benefit Renewals, Enrollments, Issues & Questions
- Administrative paperwork, filing, data entry
- Compliance Reporting (EEOC, FMLA, ERISA, 5500s, Section 125, etc)
- Employee Relations (coaching & counseling)
- 401(k) Administration
- Management of employee policies & updates
- Worker's Compensation administration
- Recruiting
- Training (including new hire orientation)
- New Hire processing (drug screening, I-9 forms, W4 forms, etc)

### Method used to determine cost of services:

Because Human Resources performs the services listed above uniformly for all departments within KRA, we divided the number of KIU employees from the total number of KRA employees. The resulting percentage of 3.35% is then multiplied by HR's 2010 operating costs to identify the portion belonging to KIU.

### Cost of services:

# of employees - KIU	14
# of employees - All KRA	418
Percentage of KIU employees	3.35%
HR Dept Costs	\$ 323,534
Percentage of costs allocated to KIU	3.35%
Cost of services provided by HR	<u>\$ 10,836.07</u>

## Marketing

### Services Performed by Marketing for KIU:

The marketing department designs and creates the Annual Water Report. This high quality report is made available in print and on the web.

### Method used to determine cost of services:

The Marketing Dept utilizes a project management system, therefore the hours and rates for each employee that worked on the Annual Water Report can be identified.

The average hourly rate for marketing personnel is marked up for benefits (20%) and then multiplied by the total hours spent on the Water Report.

### Cost of services:

Avg. Hourly Rate	26.73
Benefit Factor	<u>1.2</u>
Hourly Equivalent Rate	\$ 32.08
Total Hours	<u>50.5</u>
Cost of services provided by Mktg	<u>\$ 1,619.84</u>

## Land Development

### Services Performed by Development for KIU:

Coordinates design and construction of water mains, sewer mains, and pump stations.

### Method used to determine cost of services:

The estimated hours for each of the projects performed by the Director of Development on behalf of KIU is multiplied by his hourly rate (marked up to include benefits).

### Cost of services:

Avg. Hourly Rate	76.92
Benefit Factor	1.2
Hourly Equivalent Rate	<u>\$ 92.30</u>

### Hours

Oversight & Upgrades to Heath Cottage Pump Station	30.0
Cougar Island Purchase	25.0
Review Thomas & Hutton Master Water Plan	25.0
	<u>80.0</u>

Hourly Equivalent Rate	<u>\$ 92.30</u>
Cost of services provided by Mktg	<u><u>\$ 7,384.32</u></u>

## Legal

### Services Performed by Legal Dept for KIU:

A) Prepare, review, & distribute weekly real estate closings, filing, etc.

B) Preparation & review of legal documents/agreements for projects affecting KIU by in-house attorney. 2010 projects include the Cougar Island Sale and associated Lease Purchase Closing.

### Method used to determine cost of services:

A) The weekly real estate reports are prepared by two employees. Of the total preparation time, it is estimated that 1 hour/week pertains to KIU. Therefore 52 hours is multiplied by their average hourly rate (marked up to include benefits).

B) Total hours of the in-house paralegal for each KIU project are multiplied by her hourly rate (marked up to include benefits).

### Cost of services:

#### A) Real Estate Reporting

Avg. Hourly Rate	21.08
Benefit Factor	1.2
Hourly Equivalent Rate	<u>\$ 25.30</u>

Total Hours (1hr/week)	52
KIU portion of Real Estate reporting costs	<u>\$ 1,315.39</u>

#### B) KIU Legal Projects

Avg. Hourly Rate	51.50
Benefit Factor	1.2
Hourly Equivalent Rate	<u>\$ 61.80</u>

Hours - Cougar Island Sale	37.50
	<u>50.00</u>

Total Cost of Services: In-House Attorney	<u>\$ 5,407.50</u>
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Cost of services provided by Legal	<u><u>\$ 6,722.89</u></u>
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## Payroll

### Services Performed by Payroll Dept for KIU:

Processes utility payroll and employee benefits as well as maintaining time clock and punch detail reports. Specific duties are outlined below.

### Method used to determine cost of services:

The estimated hours for each of the payroll accountant's duties as they relate to KIU are multiplied by the number of times performed during the year. The resulting total hours are then multiplied by her hourly rate (marked up to include benefits).

### Cost of services:

Hourly Rate	23.52
Benefit Factor	<u>1.2</u>
Hourly Equivalent Rate	\$ 28.22

Service Performed	Hours	# of times / year	Total Hours
- Pull e-times system (bi-weekly)	0.5	26	13
- Process & submit payroll (bi-weekly)	0.75	26	19.5
- Review & verify payroll output (bi-weekly)	0.5	26	13
- Distribution of checks (bi-weekly)	0.5	26	13
- Process 941's (quarterly)	1	4	4
- Process W2's (annually)	1	1	1
- Special Requests (weekly)	1	52	52
		Total Hours	<u>115.5</u>

Hourly Equivalent Rate	\$ 28.22
Cost of services provided by Payroll	<u>\$ 3,259.87</u>



## Partners

### Services Performed by Partners for KIU:

Oversight and long-range planning/strategy

### Method used to determine cost of services:

Compensation for the COO and Partners are performance/incentive based. Therefore their total compensation is not an appropriate means from which to derive the cost of their services. As such we have used a charge-out rate of \$225/hour which is substantially below market level for senior executive services.

### Cost of services:

	Partner 1	Partner 2	Total
Annual Hours Total	2,080	2,080	
% of time inre: oversight of KIU	3%	3%	
# of hours inre: oversight of KIU	62	62	125
Billing Rate	\$ 225	\$ 225	
Cost of services provided by Partners	\$ 14,040	\$ 14,040	\$ 28,080

## Executive

### Services Performed by COO for KIU:

- Oversight and long-range planning/strategy
- Reviews Utility financial performance
- Capital Improvement Projects
- Regulatory / Legal

### Method used to determine cost of services:

Compensation for the COO and Partners are performance/incentive based. Therefore their total compensation is not an appropriate means from which to derive the cost of their services. As such we have used a charge-out rate of \$225/hour which is substantially below market level for senior executive services.

### Cost of services:

	COO
Annual Hours Total	2,080
% of time inre: oversight of KIU	5%
# of hours inre: oversight of KIU	104
Billing Rate	\$ 225
Cost of services provided by COO	<u>\$ 23,400</u>

## Mail Center

### Services Performed by Mail Center for KIU:

Deliver interoffice mail to/from utility as well as process all bulk mailings for KIU.

### Method used to determine cost of services:

Because the Mailing Center performs the services listed above uniformly for all locations withing KRA, the number of mail stops is used to identify KIU's portion. There are eight mail stops, so 1/8 is multiplied by the Mail Center's 2010 operating costs to identify the portion belonging to KIU.

### Cost of services:

	Dept Costs	1 of 8 locations	Total
Cost of services provided by Mail Center	34,116	12.5%	<u>\$ 4,264.50</u>

## Accounting

### Services Performed by the Accounting Dept for KIU:

Handles Risk Management, banking, audit, budgeting, capital purchasing, etc.  
Specific services are outlined below.

### Method used to determine cost of services:

Estimated hours for each service is multiplied by the individual's hourly rate (marked up to include benefits).

#### Cost of services:

A) Asst. Contoller - Duties/Services:	Hours	
Provide assistance to Vicky (1hr/week)	52	
Total Hours		52
Hourly Rate	\$ 38.38	
Benefit Factor	1.2	
Hourly Equivalent Rate		\$ 46.06
Cost of services provided:		<u><u>\$ 2,394.91</u></u>

B) CFO - Duties/Services:	Hours	
Review & Sign checks (.5hrs/biweekly)	13	
Review monthly financial stmts (1hr/month)	12	
Liability Insurance Renewal	5	
Property Insurance Renewal	5	
Annual Employee Benefit Renewals	4	
Quarterly Financial Reviews (2hr/qtr)	8	
Budgeting (assistance, review, approval, present)	10	
RBC Loan Modification	30	
Cougar Island Lease Purchase	20	
Capital Purchase Review/Approval	10	
Long range planning / Capital Imp's (3hr/qtr)	12	
Payroll Review (.5hrs/biweekly)	13	
Year-end Closing: Review/Audit Issues	10	
Tax Planning, Tax Return Approval	5	
PSE Annual Report	5	
Gross Receipts	2	
Geneal (1hr/week)	50	
Bank Relationships (1hr/month)	12	
Total Hours		226
Hourly Rate	60.10	
Benefit Factor	1.2	
Hourly Equivalent Rate		\$ 72.12

Cost of services provided: \$ 16,299.12

Cost of services provided by Accounting Dept \$ 18,694.03

KIAWAH ISLAND UTILITY, INC.

DOCKET NO. 2011-317-W/S

PRE-FILED TESTIMONY OF J. MITCHELL BOHANNON, III  
BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

Testimony Prepared: October 19, 2011

Hearing Date: November 30, 2011

Exhibit: Aerial overlay of proposed new supply line

THIS TESTIMONY IS FILED PURSUANT TO PSC NOTICE DATED AUGUST 15, 2011. THE APPLICANT RESERVES THE RIGHT TO SUPPLEMENT THIS TESTIMONY AND TO PROVIDE REPLY TESTIMONY TO THE TESTIMONY THAT WILL BE PRE-FILED BY THE COMMISSION STAFF, ORS, AND INTERVENORS.

**MR. WALKER:** Mr. Bohannon, would you please provide your full name, business address, and educational background, and tell us by whom you are employed?

**MR. BOHANNON:** My name is J. Mitchell Bohannon, and I am a registered Professional Engineer and a partner in the engineering firm of Thomas & Hutton Engineering Co. I have a Bachelor of Engineering Technology degree from Georgia Southern College and a Bachelor of Science in Civil Engineering from Clemson University. I have over 35 years experience in civil engineering. Our firms' address is 682 Johnnie Dodds Boulevard, Mt. Pleasant, SC 29464, with offices in Savannah and Brunswick, GA, Myrtle Beach, SC, and Wilmington, NC.

**MR. WALKER:** How long have you been with Thomas & Hutton?

**MR. BOHANNON:** Thirty-five (35) years.

**MR. WALKER:** Mr. Bohannon, could you briefly tell us a little about your firm, Thomas & Hutton Engineering Co.?

**MR. BOHANNON:** Thomas & Hutton Engineering Co. was founded in 1946 by Mr. Hue Thomas and Mr. Joseph Hutton in Savannah, Georgia. The firm was incorporated in its present corporate structure in 1955. Throughout its history, Thomas & Hutton has served a broad range of clients, including municipalities, state, and federal government agencies, industrial clients, major utilities and private landowners. We have worked extensively with private developments and developers on the South Carolina coast. We have served as civil engineers for communities such as Sea Pines Plantation, Long Cove Club, Wexford Plantation, Hilton Head Plantation, Rose Hill Plantation, Moss Creek Plantation, Indigo Run, Dataw Island, Melrose Club, Bloody Point, and Haig Points, all in the Hilton Head area. We have also worked for South Island Public Service District, Rose Hill Utilities, Hilton Head Plantation Utility Company and Beaufort-Jasper Water Authority in the Hilton Head area, many of which are regulated by the Public Service Commission. In the local Charleston area, our clients include Goose Bay Plantation. The

**MR. BOHANNON:** We have worked extensively at Kiawah since the days when we were part of the master planning team in the early 1970's. We have designed practically all of the road and sewer facilities at Kiawah for more than three decades.

**MR. WALKER:** How long have you been personally involved in providing engineering services to the Utility?

**MR. BOHANNON:** More than 30 years.

**MR. WALKER:** What specific engineering services have Thomas & Hutton performed for Kiawah Island Utility, Inc.?

**MR. BOHANNON:** Commencing in 1974, Thomas & Hutton was retained by the Kiawah Island Company, Ltd. ("KIC"), a Kuwaiti development entity, to provide design services and construction administration for the utility projects that needed to be constructed on Kiawah Island. When KRA purchased the land in 1988, it retained Thomas & Hutton to continue its design services and construction administration for the utility projects on the Island.

With the exception of a few projects designed by CH2M Hill, Inc. in the early 1980's, Thomas & Hutton has worked continuously since 1974 in the design of most of the water and sewer infrastructure on the island. These services include designing all the components of the potable water, sewer, and effluent systems; monitoring the construction of these systems; and consulting with the Utility on the various problems and challenges it faces in furnishing high quality water and sewer services to all customers on Kiawah Island and anticipating what is necessary to meet the needs and expectations of the customers of the system.

More recently Thomas & Hutton has been involved in the engineering for Aquifer Storage and Recovery ("ASR") systems for below ground storage of potable water. Thomas & Hutton has also partaken in evaluating alternatives for providing a replacement of the existing supply line for potable water to Kiawah Island. The existing supply line was built in 1978. It runs from Bohicket Road, down Kiawah Island Parkway, across the Kiawah River, and further along the Parkway to the mid-island plant of the Utility. This supply line is aging and experiences breaks that cut off the potable water supply to the island.

**MR. WALKER:** Tell us about the improvements to the water and sewer facilities of the Utility since 2001, the year of the last rate application.

**MR. BOHANNON:** In early 2002 the Utility completed construction of an ASR facility for emergency and peak shaving during periods of high demands. In 2003 it constructed a second ASR facility at its down island pumping facility. Between 2002 and 2005 the Utility refurbished the fire pump and added a pump to Down Island Pump Station. Between 2003 and 2005 the Utility constructed line extensions to provide service to customers. Around September 2003 the Utility installed upgrades to allow remote monitoring and control of water system. In December 2003 the Utility installed enhancements to its facilities that were necessary to accommodate ASR installation and controls. Between 2002 and 2006 the Utility was required to restore concrete structures destroyed by sewer gases. In December 2006 the Utility installed upgrades to allow for increase in waste water treatment capacity to 1.7 million gallons per day. Between 2003 and 2005 the Utility installed collection lines and sewage pump stations to provide service to customers.



Between 2002 and 2009 the Utility installed additional metering that was required for billing purposes as well as a DO booster to operate in DHEC permit limits.

**MR. WALKER:** Does Thomas and Hutton have any concerns about the existing supply line for potable water to Kiawah Island?

**MR. BOHANNON:** Yes. Thomas & Hutton as well as the Utility have been concerned about the single supply line for some time. The supply line was installed 33 years ago. As the supply line ages the demand for potable water on the island continues to grow. There are now thousands of residential users, most of which have individual irrigation systems. In addition, there are a number of very large irrigation users, such as the Kiawah Island Community Association and three of the five golf courses on the island. The island also now has a large, premier destination hotel known as the Sanctuary in the middle of the island. At times, the daily demand during peak season exceeds the daily supply. Thomas & Hutton has been involved with the design and installation of its ASR, which is a water storage facility that reserves water for withdrawal during peak times. ASR, however, is not a substitute for an original source of potable water. Our concern at this point is assuring an adequate supply of potable water to the island for immediate use and for storage for use during periods of peak demand or when there are failures in the supply line to the island.

**MR. WALKER:** Please tell us about the analysis your company rendered to KIU with regard to obtaining a dependable source of potable water.

**MR. BOHANNON:** In response to the Utility's request in 2006, Thomas & Hutton considered the addition of either a 16, 18. or 20-inch new supply main to island parallel to

the existing supply line. One of the primary reasons for this study was to try to alleviate low pressures from St Johns Water Company that were causing the Utility operational problems. The following year, in 2007, KIU independently looked at constructing a new ASR system and also initiated review of a second redundant supply line from St. Johns that would connect to St. Johns' new 24-inch water line on River Road. (The existing supply line connects to St Johns' main that runs down Bohicket Road).

In a report dated February 2000 Thomas & Hutton investigated options to provide an additional supply of potable water to the island from St. Johns Water Company. We determined the following to be feasible options:

- (a) a line connecting to a water main on River Road on Johns Island that would cross under the Kiawah River and extend to the Down Island Storage facility located at Governor's Drive on the eastern end of the island;

- (b) a line also connecting to a water main on River Road on Johns Island but would cross under the Kiawah River and connect near Rhett's Bluff in the middle of the island; and,

- (c) the installation of a reverse osmosis water treatment plant combined with an ASR system on Cougar Island or at the Down Island Storage facility (this option would not connect to St Johns).

In May 2007 the Utility asked Thomas & Hutton to look again at replacing the existing 16-inch supply line under Kiawah River by running a parallel line. KIU has become increasingly concerned about the increasing frequency of breaks and leaks on the existing 16-inch supply line that jeopardizes an uninterrupted supply of potable water

for residential and commercial use as well as fire protection on Kiawah Island. That request lead to a more detailed investigation of possible alternatives for improving the reliability of the Utility's water supply. This investigation determined that the 24-inch line recently installed by SJWC has now increased their ability to grant the Utility approval for a second feed. Since that time until now we have been working with KIU to review redundant/replacement line alternatives.

**MR. WALKER:** Did the Utility ask you to provide information on the cost of the supply line alternatives?

**MR. BOHANNON:** Yes. The Utility asked Thomas & Hutton to estimate the price of the design and construction of a new line parallel to the existing line along the Parkway running from Bohicket Road to the plant and the prices of an alternative new line that connected with the St. Johns' 24-inch main on River Road and connected with the system on Kiawah Island at either Rhett's Bluff (mid-island) or the Down Island Storage site (on the eastern end of the island)

**MR. WALKER:** How did the prices compare?

**MR. BOHANNON:** We estimated the cost of a new line parallel to the existing line at approximately \$5,000,000.

The cost of a new line from River Road that connects at either Rhett's Bluff or the Down Island Storage site is driven largely by two factors, overall distance and the length of passage under the marsh and Kiawah River. We would use a directional bore to place the line underground to cross the river and marsh. As the length gets longer the cost gets

greater and the accuracy is less. Connecting at Rhetts Bluff was the highest cost, coming in around \$7,400,000.

There were a number of alternative routes for a connection from the St. Johns River Road main to the Down Island Storage facility. The Utility and Thomas & Hutton agreed on the alignment that would be the least expensive and would at the same time run adjacent to property lines or other utility easements on Johns Island, thereby facilitating the procurement of the necessary easements. We estimate the cost of the design and installation of the new line across the selected route at \$6,500,000.

**MR. WALKER:** Do you have an illustration of the location that you are referring to?

**MR BOHANNON:** Yes. Attached as an Exhibit to my testimony is a color aerial photograph that indicates the route.

**MR. WALKER:** Does this alternative route that connects on the eastern end at the Down Island Storage facility have any advantages over a new line that would be parallel to the existing supply line down the Parkway on the western end of the island?

**MR. BOHANNON:** Yes, several.

Bringing the new supply line to the eastern end will help with volume and pressures island-wide, especially on the entire eastern half of the island. From an engineering standpoint, the "balance" in the system created by this location of the connection is highly desirable.

There is also a considerable advantage to connecting to St Johns' 24-inch main on River Road. This main is new and should experience far fewer interruptions in service than the main constructed in the 1970s that runs along Bohicket Road to the connection

point for the Utility's existing supply line. If there is a failure of the St. Johns system along Bohicket Road, the new line in the location proposed on the eastern end of the island should be unaffected. The proposed connection point has a tremendous advantage in that it is connected to a number of loops in the St. John's system that insures a redundant supply from St. John's. In addition to its relative newness and the redundancy, St. Johns' 24-inch main on River Road is closer to St. Johns' source of water, Charleston Water Systems of the City of Charleston.

**MR. WALKER:** Is Thomas & Hutton working with the Utility in acquiring the easement rights?

**MR. BOHANNON:** We have been working closely with Becky Dennis in meeting with the various property owners. We are optimistic about obtaining agreements with all the affected owners.

**MR. WALKER:** Based on your training, experience, background, and personal familiarity with the Utility, do you have an opinion as to the need and utility of the proposed replacement line location between the various alternatives?

**MR. BOHANNON:** Yes, in my opinion, the proposed new supply line is essential and the best option for the Utility to assure an adequate, uninterrupted supply of potable water to the island and to serve its customers in the high quality manner it always has.

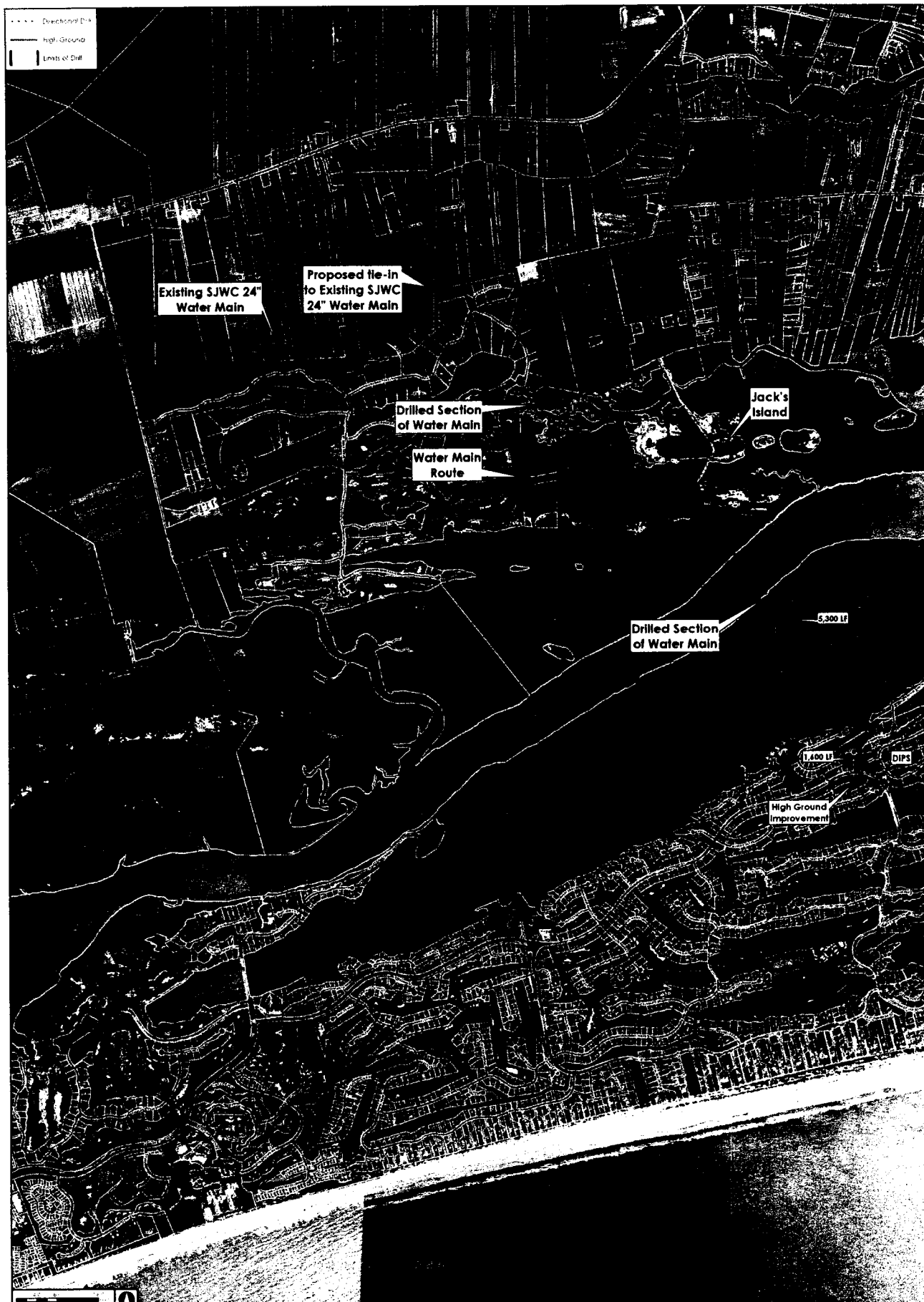
**MR. WALKER:** Do you believe your estimated cost of \$6.5 million will change over the next year?

**MR. BOHANNON:** We keep a very close eye on construction costs and deal with them every day. We have high confidence that this is a solid price and that there most probably will not be significant fluctuations in the cost over the next year.

**MR. WALKER:** Mr. Bohannon, in providing the Commissioners background on your experience in water and sewer utilities, you referred to several other private water and sewer utilities that you have performed engineering services for. Would you compare the operation and facilities of Kiawah Island Utility, Inc. to these other utilities?

**MR. BOHANNON:** Based on my personal familiarity with the operation and physical plant of other water and sewer utilities in the region, I have no reservation in saying that Kiawah Island Utility, Inc. has a first-class system that provides high quality service and facilities to its customers. Rather than waiting for a crisis before taking action, Kiawah Island Utility, Inc. has always employed sound and sensible planning, and constructed facilities that anticipated problems before they occur. It has been diligent in providing state of the art systems that assure the quality and safety of drinking water to its customers. I would also add that, based on what I have observed, Becky Dennis and the rest of the Utility's staff are conscientious and very responsive to any concerns or questions of their customers or others.

END OF DIRECT TESTIMONY



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www.thomasandhutton.com	
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**Exhibit A**  
 Kiawah Island, South Carolina  
**Redundant Water Supply Main Route**

**THOMAS & HUTTON**  
 682 JOHNNIE DODDS BLVD, SUITE 100 • PO BOX 1522  
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KIAWAH ISLAND UTILITY, INC.

DOCKET NO. 2011-317-W/S

## Pre-Filed Testimony of Gary C. White

Before the South Carolina Public Service Commission

Testimony Prepared: October 19, 2011

Hearing Date: November 30, 2011

Exhibits: Schedules incorporated into Application (not re-submitted)

Exhibit: Résumé (attached)

**Q. Please state your name and business address.**

A. Gary C. White, 3 Sleepy Hollow Drive, Clifton Park, New York.

**Q. What is your occupation?**

A. I am Vice President and the Director of Accounting with Guastella Associates, LLC a firm that provides utility consulting services primarily for municipal and investor-owned water and wastewater utilities.

**Q. Please state your educational background and professional experience.**

A. I received a Bachelor of Science in Business Administration from Valparaiso University in 1972. I graduated with an Accounting major and Finance minor. I have also completed a course in utility rate regulation sponsored by the National Association of Regulatory Utility Commissioners ("NARUC"), the Florida Public Service Commission and the University of Utah.



1 I was employed in the unregulated, private industry sector between 1972 and  
2 1984 with responsibilities in various areas of business management, accounting  
3 and finance. Since 1984, my experience has been concentrated in the areas of  
4 management, valuation and rate setting for water and sewer utilities. During this  
5 period, I was responsible for the rate regulation department of General  
6 Development Utilities, Inc. which was the largest investor-owned water and sewer  
7 utility in Florida. I was subsequently employed as General Manager of Country  
8 Knolls Water Works, an investor-owned utility in upstate New York. I managed  
9 all of the utility's regulatory, accounting and operations activities on a day-to-day  
10 basis. I began my employment with Guastella Associates in 1992.

11 My experience in utility matters includes the preparation of cost of service and  
12 revenue requirement analyses for both private and municipal utilities. I have  
13 prepared cost allocation, connection charge, and rate design studies; revenue  
14 requirement forecasts; population growth and system capacity projections; market  
15 value analyses and various operations and management evaluations. I have  
16 provided rate, regulatory and system valuation services for clients in Alaska,  
17 Arizona, California, Connecticut, Florida, Georgia, Illinois, Indiana, Maine,  
18 Maryland, Massachusetts, Montana, Nevada, New Hampshire, New Jersey, New  
19 Mexico, New York, Ohio, Pennsylvania, Rhode Island, and South Carolina. I  
20 have served as an instructor at several seminars for developer-related water and  
21 sewer utilities, sponsored by Florida State University and the University of  
22 Florida, and at a utility rate seminar conducted by the New England Chapter of  
23 the National Association of Water Companies.

1     **Q.     Did you prepare the resume of your qualifications and experience that is**  
2           **being submitted as an exhibit with your testimony?**

3     A.     Yes.

4

5     **Q.     How long have you practiced in the area of utility management and rate**  
6           **regulation?**

7     A.     I have been involved in the utility industry for over twenty-seven years.

8

9     **Q.     Before what regulatory agencies and municipal jurisdictions have you**  
10          **presented expert testimony?**

11    A.     I have testified as an expert witness in regulatory hearings in Connecticut, Florida,  
12          Maryland, New Jersey, New York, Pennsylvania and South Carolina.

13

14    **Q.     Are you a member of any professional associations?**

15    A.     I am a member of the American Water Works Association.

16

17    **Q.     Please describe the nature of your assignment in connection with this**  
18          **proceeding.**

19    A.     Guastella Associates was retained as consultants to Kiawah Island Utility, Inc.  
20          ("Company"). My assignment was to examine the financial information and  
21          operating data of the utility, and to coordinate my work with that of John F.  
22          Guastella to prepare an analysis of the Company's revenue requirement for both  
23          its water and wastewater operations.

1 Throughout the process of preparing the rate study, which supports the  
2 Company's application for a rate increase, I have worked closely with the  
3 Company's management, accounting, financial, billing, and operations personnel  
4 to assure the application accurately depicts the Company's financial position and  
5 contains the information necessary to establish its cost of providing service.  
6

7 **Q. What test periods do you use?**

8 A. Our analyses are based on the historical test year ended December 31, 2010  
9 financial information and a pro forma rate year adjusted for known and  
10 measurable changes through the period ending December 31, 2011.  
11

12 **Q. Would you briefly describe the results of your rate study?**

13 A. Yes. The study produced a total revenue requirement of \$5,219,533 for the water  
14 system and \$1,598,622 for the wastewater system for the "Phase I" filing which  
15 covers the pro forma cost of providing service based on the projected 2011  
16 operations. The revenue requirement for the "Phase II" filing, which includes the  
17 Phase I costs of providing service plus the cost impacts of the \$6.5 million  
18 replacement water supply main installation, is \$5,894,843 for the water system.  
19 There is no Phase II increase for the wastewater system. The revenue requirement  
20 under the Phase I filing reflects a \$978,502 increase over existing water rates or a  
21 23.1% increase in water revenues, and a \$85,225 or 5.6% increase in sewer  
22 revenues. The Phase II filing would require an additional \$675,062 or a 12.9%

1 increase over Phase I water rates. The net operating income is based on an overall  
2 operating margin of 13.75%.

3 **Q. Have you prepared schedules that summarize your rate analysis?**

4 A. Yes, those schedules are incorporated into the Company's Application that has  
5 been filed with the Commission. I refer the Commissioners to those schedules  
6 which I understand are part of the administrative record. I will briefly describe all  
7 of the schedules submitted in support of the rate increase. Mr. Guastella's  
8 testimony addresses some of the schedules and certain issues within this rate  
9 application.

10

11 **Q. Please explain Schedule A-1**

12 A. Schedule A-1 shows the Company's consolidated water and wastewater  
13 comparative balance sheets for calendar years 2006 through 2010. This schedule  
14 reflects the assets, liabilities and equity as properly recorded to show the  
15 Company's financial position.

16

17 **Q. Please describe the contents of Schedule A-2.**

18 A. This schedule contains the individual water and wastewater system's comparative  
19 annual income statements for the 12 month periods ended calendar years 2007,  
20 2008, 2009 and 2010. The amounts shown on Schedule A-2 reflect the actual  
21 level of income generated by the water and wastewater operations of the  
22 Company.

23

1     **Q.     Please explain Schedule A-3.**

2     A.     Schedule A-3 shows the Company's capital structure and rate of return. The  
3           schedule also shows the South Carolina Public Service Commission method of  
4           calculating the operating margin.

5  
6     **Q.     Please explain how Schedule A-4 relates to Schedule A-3.**

7     A.     Schedule A-4 was included to demonstrate that the calculated operating margin of  
8           13.75% on Schedule A-3 is within a range of reasonableness. The information  
9           provided shows that this operating margin is in line with the range of both the  
10          "All Companies" group and the "South Region" sub-group as reported in the  
11          National Association of Water Companies-2008 Financial Summary for Investor-  
12          Owned Utilities.

13  
14    **Q.     Would you please describe Schedule A-5?**

15    A.     Schedule A-5 presents the overall operating statement for the combined water and  
16           wastewater systems. It simply reflects the combined results of Schedule W-C, the  
17           water operating statement, and Schedule S-C, the sewer operating statement.

18  
19    **Q.     Please describe Schedule B?**

20    A.     I will provide a generic description of the remaining schedules as each lettered  
21           schedule represents similar information applicable to both the water and the  
22           sewer, Phase I and Phase II, rate filings. In other words, Schedules W-B and S-B  
23           sets forth the computation of the water and sewer rate base, respectively. These

1 schedules show the rate base components for the test period at year-end 2010,  
2 adjustments and pro forma year-end 2011 rate year balances that are used to  
3 develop the Company's revenue requirement.  
4

5 **Q. Would you please describe Schedule B.1, B.2 and B.3?**

6 A. Schedule B.1 summarizes and describes the pro forma adjustments made to the  
7 rate base calculation shown on Schedule B.

8 Schedule B.2 shows the detail of Plant in Service by primary plant account. It  
9 begins with the original cost of plant in service as of December 31, 2010 and  
10 brings the accounts forward through pro forma December 31, 2011 balances.

11 Schedule B.3 contains Accumulated Depreciation by primary plant account, along  
12 with the adjustments necessary to formulate the pro forma December 31, 2011  
13 balances. The development of annual depreciation accruals for the pro forma  
14 period are supported and detailed on Schedules W-C.3 (water) and S-C.3 (sewer).  
15 The balances from Schedule B.2 and B.3 are brought forward to the rate base,  
16 Schedule B.1.  
17

18 **Q. Please describe the working capital allowance and average unamortized**  
19 **balance on Schedule B.1.**

20 A. The working capital allowance is based on a modified lead/lag study applicable to  
21 the Company's monthly billing, in arrears. The level of allowance reflects an  
22 average of 45 days (1/8<sup>th</sup> of a year) of lag time representing the mid-point of the  
23 30 day period (or 15 days) over which service is provided prior to billing and an

1 average of 30 days to receive payment from the customers after the end of the  
2 period. This lag represents a capital requirement placed on the Company and is a  
3 positive rate base adjustment.

4 The average unamortized balance represents the Company's average balance of  
5 unrecovered rate case expense and lightning damage repair expense. The  
6 lightning damage repair costs were removed from the test period O&M expenses  
7 and amortized as an extraordinary repair item for rate-setting purposes. Because  
8 the amortization creates a delay in recovery of the full cost, the unrecovered  
9 portion of the expense becomes a capital requirement of the utility, and a positive  
10 rate base adjustment in order to recognize the associated carrying cost.

11  
12 **Q. Would you please describe Schedule W-C and S-C?**

13 **A.** Yes, these schedules contain the pro forma operating statements or income  
14 statements for water and sewer, respectively. Schedule C shows the Company's  
15 operating results for the historical twelve months ended December 31, 2010, and  
16 also shows the pro forma adjustments and operating results for rate period ending  
17 December 31, 2011 under present and proposed rates. These schedules  
18 summarize the Company's cost of operations, resultant net operating income and  
19 operating margin.

20 The numbered adjustments on Schedules W-C and S-C reference the explanations  
21 of those adjustments provided on Schedules W-C.1 and S-C.1.

1   **Q.     Would you briefly describe the adjustments on Schedule C.1?**

2   A.     Yes. Adjustments 1(a) through 1(n) reflect the pro forma changes made to

3           operating revenue, by customer class, under present rate and proposed rates. The

4           revenue adjustments are supported by the billing analyses contained on Schedules

5           E, E.1 and E.2.

6           Adjustments 2(a) through 2(i) reflect the pro forma changes made to operation

7           and maintenance expenses. An explanation is provided for each adjustment.

8           Adjustment (3) reflects the annual depreciation accrual, determined by applying

9           depreciation rates to the pro forma levels of plant in service.

10          Adjustment (4) reflects the annual amortization expense of the unrecovered

11          current rate case costs and lightning repair costs.

12          Adjustment (5) reflects the revenue tax applicable to pro forma revenues under

13          present rates.

14          Adjustment (6) reflects the property tax adjustment relative to utility plant

15          additions.

16          Adjustment (7) reflects the payroll tax expense associated with pro forma wages.

17          Adjustment (8) calculates the state and federal income tax on pro forma taxable

18          income under present rates.

19          Adjustment (9) shows the impacts of the increased revenue, under proposed rates,

20          on the bad debt expense component.

21          Adjustment (10) increases revenue taxes to reflect pro forma revenue levels under

22          the proposed rates.



1 Adjustment (11) calculates the state and federal income tax on pro forma taxable  
2 income under the proposed rates.

3

4

5 **Q. Please describe Schedule C.2.**

6 A. This schedule reflects the individual operating expense items by functional  
7 category. It shows the test year amounts and the adjustments to each expense  
8 category in order to produce the pro forma rate year expenses.

9

10 **Q. Please describe Schedule C.3.**

11 A. Schedule C.3 reflects the annual depreciation expense by individual plant  
12 accounts. This schedule shows the test year and pro forma rate year depreciation  
13 expense.

14

15 **Q. Please describe Schedule D.**

16 A. This schedule shows the revenue requirement, equity return and resulting  
17 operating margin for each of the utility systems.

18

19 **Q. Please explain the billing analyses presented on Schedules E, E.1 and E.2.**

20 A. Schedule E sets forth the billing analyses for the historical twelve-month period  
21 ended December 31, 2010.

22 Schedule E.1 sets forth the pro forma billing analyses under present rates and  
23 includes the projection of rate year customer growth.

1       Schedule E.2 applies the proposed rates to the same billing data as appears on  
2       Schedule E.1, thus producing revenue equal to the pro forma revenue  
3       requirement.

4       The billing analyses provide the detailed billing data for the revenues presented  
5       on Schedule W-C and Schedule S-C.

6

7       **Q.     Briefly explain each of the Schedules F.1 and F.2.**

8       A.     Schedule F.1 reflects the water and sewer revenue requirement calculations. It  
9       shows the revenue requirement components for the pro forma rate year analysis.  
10      Schedule F.2 contains the water and sewer rate design schedules. The proposed  
11      rates are designed to result in an across-the-board increase for all customer  
12      categories. The rates developed on this schedule, when applied to the billing  
13      units, will generate the appropriate level of income as demonstrated on Schedule  
14      E.2.

15

16      **Q.     Does this conclude your testimony?**

17      A.     Yes.

**PROFESSIONAL QUALIFICATIONS AND EXPERIENCE**  
**of**  
**GARY C. WHITE**

B.S., Business Administration, Accounting, Valparaiso  
University, 1972

Member: American Water Works Association

Over his professional career, Mr. White has been involved in various aspects of business management, accounting and finance. Since 1984, his experience has been in the area of utility management and rate regulation for water and wastewater systems. During this period he was responsible for the rate regulation department of the largest privately-owned water and wastewater utility in Florida, managed an investor-owned utility in upstate New York, and has been employed as a utility consultant.

Mr. White has extensive experience in utility ratemaking. He has prepared numerous rate studies providing cost of service and revenue requirement analyses for water and wastewater systems. He has performed cost allocation and bulk service analyses; revenue requirement forecasts; population growth and system capacity projections; and various plant operation and resource management evaluations. He has had experience with privately-owned and municipal utility systems. He also served as an instructor at a seminar for developer related water and sewer utilities, conducted by Florida State University and the University of Florida.

Mr. White has presented testimony in Connecticut, Florida, New Jersey, New York and South Carolina. He has qualified as an expert witness before several municipal regulatory agencies in the state of Florida, the New York Public Service Commission, Connecticut Department of Public Utilities Control, New Jersey Board of Public Utilities and the South Carolina Public Service Commission. He has appeared at both regulatory and municipal hearings representing investor-owned utilities on matters of ratemaking, regulation, rate design, finance, and utility management. Mr. White has also been active as a speaker on these subjects for community organizations and civic organizations.

Resume: GCW

**Gary C. White**  
**List of Proceedings in which**  
**Expert Testimony**  
**was Presented**

Year	Client	State
1985	General Development Utilities, Inc. - Port Charlotte	Florida
1986	General Development Utilities, Inc. - Silver Spring Shores	Florida
1986	General Development Utilities, Inc. - Port LeBelle	Florida
1987	General Development Utilities, Inc. - Sebastian Cove	Florida
1987	General Development Utilities, Inc. - Port Charlotte	Florida
1988	General Development Utilities, Inc. - Port St. Lucie	Florida
1988	General Development Utilities, Inc. - North Port	Florida
1989	General Development Utilities, Inc. - Port Malabar	Florida
1991	Country Knolls Water Works, Inc.	New York
1994	Environmental Disposal Corp.	New Jersey
1995	Environmental Disposal Corp.	New Jersey
1995	Hobe Sound Water Co.	Florida
1995	Heritage Hills Sewerage Works	New York
1996	Pen Pac Waste Disposal Co.	New Jersey
1996	Connecticut American Water Co.	Connecticut
1997	Crestwood Village Water Company	New York
1997	Pen Pac Waste Disposal Co.	New Jersey
1997	Hobe Sound Water Co.	Florida
1999	Environmental Disposal Corp.	New Jersey
2000	Placid Lakes Utilities, Inc.	Florida
2002	Kiawah Island Utility, Inc.	South Carolina
2003	Heritage Hills Water Works	New York
2004	Environmental Disposal Corp.	New Jersey
2004	Aquarion Water Co.	Connecticut
2005	Haig Point Utilities, Inc.	South Carolina

1  
2 KIAWAH ISLAND UTILITY, INC.

3 DOCKET NO. 2011-317-WS

4 PRE-FILED TESTIMONY OF JOHN F. GUASTELLA

5 BEFORE THE SOUTH CAROLINA PUBLIC SERVICE COMMISSION

6 Testimony Prepared: October 19, 2011

7 Hearing Date: November 30, 2011

8 Exhibits: Schedules incorporated into Application (not re-submitted)

9 Exhibit: Guastella Statement of Qualifications and Experience (attached)

10  
11 THIS TESTIMONY IS FILED PURSUANT TO PSC ORDER DATED AUGUST 15, 2011.  
12 THE APPLICANT RESERVES THE RIGHT TO SUPPLEMENT THIS TESTIMONY AND  
13 TO PROVIDE REPLY TESTIMONY TO THE TESTIMONY THAT WILL BE PRE-FILED  
14 BY THE COMMISSION STAFF, ORS, AND INTERVENORS.

15  
16 **MR. WALKER:** Please state your name and business address.

17 **MR. GUASTELLA:** John F. Guastella, Guastella Associates, LLC, 6 Beacon Street, Suite 200,  
18 Boston, MA 02108.

19 **MR. WALKER:** By whom are you employed?

20 **MR. GUASTELLA:** I am president of Guastella Associates, LLC.

21 **MR. WALKER:** Please describe Guastella Associates, LLC.

22 **MR. GUASTELLA:** Guastella Associates, LLC provides utility management, valuation and  
23 rate consulting services to both regulated and unregulated utilities.

1   **MR. WALKER:**     Did you prepare the statement of your qualifications and experience as  
2   that is attached as Exhibit 1 to your testimony?

3   **MR. GUASTELLA:** Yes.

4   **MR. WALKER:**     Have you previously presented testimony before the South Carolina Public  
5   Service Commission ("PSC")?

6   **MR. GUASTELLA:** Yes, including testimony in connection with Kiawah Island Utility, Inc.'s  
7   last rate case.

8   **MR. WALKER:**     What is the nature of your involvement in this proceeding?

9   **MR. GUASTELLA:** My firm has been retained by Kiawah Island Utility, Inc. ("Company" or  
10   "KIU") to provide consulting services in connection with the preparation of a rate filing for its  
11   water and sewer utility operations. Mr. Gary C. White of my firm and I coordinated our efforts  
12   as well as those of Company personnel to carry out this assignment.

13   **MR. WALKER:**     Would you please describe your scope of work?

14   **MR. GUASTELLA:** I examined financial and operating data obtained from the Company's  
15   books and records furnished to us by Company employees and representatives. I reviewed  
16   decisions by the PSC regarding KIU's previous rate filings and related other documents in those  
17   cases. I have met with Company employees and representatives, I have made an inspection of  
18   the water and sewer facilities and I toured the service area. A rate analysis of the water and  
19   sewer operations was performed in order to establish KIU's revenue requirement components,  
20   and the proposed water and sewer rates.

1   **MR. WALKER:**     Do the schedules you and Gary White prepared that were incorporated  
2   into the Application reflect a true and accurate representation of the Company's books and  
3   records?

4   **MR. GUASTELLA:** Yes.

5   **MR. WALKER:**     In connection with your review of the financial and operating data, did  
6   you find that the information is thorough and consistent with appropriate record keeping for a  
7   regulated utility?

8   **MR. GUASTELLA:** Yes.

9   **MR. WALKER:**     What is the purpose of the schedules prepared by you and Gary White that  
10  are incorporated into the Application?

11  **MR. GUASTELLA:** In addition to complying with the PSC's filing requirements as to rate  
12  increases, the exhibits provide schedules that summarize our analyses of the Company's  
13  operations in order to establish the revenue requirements, and resultant rates of its water and  
14  sewer operations.

15  **MR. WALKER:**     How do you define revenue requirement?

16  **MR. GUASTELLA:** Revenue requirement represents the level of revenues that is necessary to  
17  cover the Company's operating expenses and capital costs. One capital cost component is the  
18  return on investment that would enable the Company to maintain financial viability and attract  
19  capital. The other is depreciation expense that provides for the recovery of the costs of the assets  
20  which are used and useful in providing utility service.

21  **MR. WALKER:**     Is that definition consistent with accepted rate setting principles?

1   **MR. GUASTELLA:** Yes. One of the legal guide posts with respect to rate setting is a Supreme  
2   Court decision, *Federal Power Commission v. Hope Natural Gas Co.* 320 U.S. 561 (1994) in  
3   which revenue requirement is similarly defined, "... it is important that there be enough revenue  
4   not only for operating expenses but also for the capital costs of the business..."

5   **MR. WALKER:**     Is that standard equally applicable to utilities whose stockholders are real  
6   estate developers?

7   **MR. GUASTELLA:** Yes. The basic methodology with which to establish a utility's revenue  
8   requirement does not change because of who holds the utility's stock. Revenues should cover all  
9   reasonable operating expense regardless of the identity of the stockholder. The utility should  
10   also be given a reasonable opportunity to earn a return on investment (or profit margin) that  
11   enables it to maintain financial viability and attract capital on the strength of its own financial  
12   condition, whether or not the stockholder is a real estate developer.

13   **MR. WALKER:**     Should the establishment of proper utility rates be affected by the fact that  
14   in general real estate property served by central water and sewer systems has a higher market  
15   value?

16   **MR. GUASTELLA:** Not at all. Unlike the investor-owned water and sewer utility business for  
17   which there is a need for a substitute for competition (utility regulatory agencies) in order to set  
18   the price of providing service, the real estate business is high risk and highly competitive for  
19   which real estate prices reflect market values. Thus, utility regulatory agencies have no authority  
20   to set the price of real estate or the profit levels of real estate developers. Moreover, it would not  
21   be appropriate for a real estate developer's profits that were properly achieved in a competitive  
22   market, to be adversely affected through the regulation of its affiliated utility's rates.



1   **MR. WALKER:**     How would an affiliated (stockholder) real estate developer's profit be  
2   affected by utility rate setting?

3   **MR. GUASTELLA:** If the developer-owned utility's revenue requirement is established below  
4   a level that would otherwise have been allowed for a utility that is unaffiliated with a developer,  
5   the developer-owner would automatically absorb the shortfall in earnings.

6   **MR. WALKER:**     In the context of developer-related utilities, what are the significant  
7   characteristics that should be considered?

8   **MR. GUASTELLA:** Developer-related utilities are typically water and sewer utilities that were  
9   created because there were no other such utility services available to serve the area of the real  
10   estate project. As newly formed utilities, they did not have funding capabilities for either the  
11   construction of the utility systems or the operating expenditures during the growth years. Over  
12   time, as customers are connected to the utility system and revenues increase, the utility  
13   operations become self-sufficient. In the meantime, the affiliated developer must provide the  
14   capital investment with which to finance the utility assets, usually booked in an intercompany  
15   account, and also subsidize the operation during the growth years either by direct payments of  
16   utility obligations or advances to the utility through an intercompany account. Even though the  
17   utility charges compensatory rates approved by the regulatory agency, it is typical that during the  
18   growth years there is not enough revenue to cover all operating expenses and provide the  
19   developer/stockholder with a full return on its investment in the utility. Thus, the developer  
20   bears the "carrying cost" of the utility operation.

21   **MR. WALKER:**     In your opinion is it proper for the developer/stockholders to absorb these  
22   carrying costs?

1   **MR. GUASTELLA:** Yes. The developers, not utility ratepayers, should absorb carrying costs  
2   because they should bear the risk of the success or failure of their real estate projects. I would  
3   note that such carrying costs are automatically borne by the affiliated developers because  
4   regulatory agencies only allow rates that cover the costs associated with the provision of utility  
5   service, and they guard against situations in which substantially less than a full compliment of  
6   customers would pay the cost of operating a completed utility system. It is also well recognized  
7   that past operating deficits are not allowed in setting prospective rates -- retroactive rate setting is  
8   not permitted. Thus, the carrying costs absorbed by the developer are never passed on to utility  
9   customers through rates for utility service, even though these carrying costs are part of the  
10  “going concern” market value of the utility company.

11  **MR. WALKER:**     Are there any indications that the developer/stockholder of KIU absorbed  
12  the costs associated with the creation of the utility and bore the risk of the real estate project?

13  **MR. GUASTELLA:** Yes. First, my review of the rate decisions by the PSC regarding KIU  
14  indicates that the only costs reflected in the utility rates are those necessary to provide utility  
15  service. I also found that in the past KIU carried significant negative retained earnings on its  
16  balance sheet, a reflection of accumulated operating deficits. Clearly, the developer not only  
17  absorbed part of the cost of operating the utility over the years, it did not earn a full return on its  
18  investment in KIU. It is, therefore, readily apparent that the developer bore, as part of its real  
19  estate project, the cost and financial risk related to the creation of KIU.

20  **MR. WALKER:**     Are you satisfied that the revenue requirement you propose for KIU  
21  includes only the costs associated with the provision of water and sewer service?

1 **MR. GUASTELLA:** Yes. There are no components of cost included in the revenue  
2 requirement that are attributed to or assignable to the real estate operation. I note that the PSC's  
3 past rate setting treatment of developer-related issues has been affirmed in court decisions  
4 subsequent to the last rate case, and there are no such residual issues applicable in this filing.

5 **MR. WALKER:** What test year did you use to establish the Company's revenue  
6 requirement?

7 **MR. GUASTELLA:** The test year is calendar year 2010, with adjustments for known and  
8 measurable changes for 2011, which comprises the portion of the rate filing identified as "Phase  
9 1." In addition, we have submitted schedules for a "Phase 2" revenue requirement for the limited  
10 purpose of including the cost of the second water supply main to St. Johns Water Company,  
11 which project is in-progress and expected to be in service in 2012.

12 **MR. WALKER:** Does Mr. White describe the various schedules included in KIU's  
13 application for an adjustment in rates and charges?

14 **MR. GUASTELLA:** Yes.

15 **MR. WALKER:** Were the book figures in these schedules taken from the actual financial  
16 statements provided by the Company?

17 **MR. GUASTELLA:** Yes.

18 **MR. WALKER:** Is the Company's proposed return on investment based on an operating  
19 margin?

20 **MR. GUASTELLA:** Yes, it is based on an operating margin of 13.75%, which is within the  
21 range of the average of operating margins that were calculated using readily available data for

1 other water utilities around the country and water utilities in the southern region of the country,  
2 as shown on Schedule A-4.

3 **MR. WALKER:** In addition to the favorable comparison with the operating margins of  
4 other utilities, would you explain why you believe a 13.75% operating margin is particularly  
5 reasonable for KIU's water and sewer operations on a combined basis?

6 **MR. GUASTELLA:** The operating margin must generate enough income to provide equity  
7 investors with a reasonable return on existing investment and to enable the utility to attract  
8 capital. The ability of small utilities to attract capital is generally difficult, and particularly  
9 when, as in the Company's case, there is a need for new capital in an unusually high amount in  
10 relation to its existing net investment. As shown in the water rate base calculation, Schedule W-  
11 B, the net plant as of December 31, 2010 is \$8,698,257 and the cost of the new water supply  
12 main is estimated at \$6,500,000, representing about 75% of the existing rate base. Obviously, a  
13 return allowance on the existing net plant portion of rate base would not be sufficient to cover a  
14 financing of the magnitude necessary for the cost of the new water supply main. In addition,  
15 lenders would consider the level of the allowed operating margin and return allowance when  
16 establishing the terms of the financing with respect to the interest rate and coverage. In sum, it is  
17 important that the operating margin is comparable to other utilities, and that potential investors  
18 view it as favorable and, therefore, encouraged to provide the lowest cost of capital.

19 **MR. WALKER:** Do you agree that the proposed improvement to the water system by the  
20 addition of the new water supply main is reasonable?

21 **MR. GUASTELLA:** Yes. The reasonableness of the need for a replacement water supply main  
22 at the proposed location is readily apparent from the study prepared by the Company's outside

1 engineering firm, as well as the Company's explanation of its experience with the existing  
2 supply main. In my opinion, in light of the Company's and its engineer's testimony on this  
3 issue, the construction of the new supply main is essential to assure reliable water service for its  
4 customers now and in the future.

5 **MR. WALKER:** Will all of the utility plant and facilities be used and useful under the  
6 proposed two phase rate increase?

7 **MR. GUASTELLA:** Yes. The existing utility plant is in service and used and useful, as  
8 reflected in the Phase 1 support schedules. Under the Company's proposal, the Phase 2 water  
9 rate increase would not become effective until the replacement water supply main, which is a  
10 prudent investment, is in service, and therefore, used and useful. Moreover, while the proposed  
11 Phase 2 water rates are based on the \$6.5 million cost estimate, the ultimate rates would reflect  
12 the actual costs, that will be subject to examination and approval prior to the effective date of the  
13 increase.

14 **MR. WALKER:** As discussed in Mr. White's testimony, the historical 2010 figures for  
15 investment and operating expenses have been adjusted, as necessary, in order to establish known  
16 and measurable changes through 2011, as reflected in the Phase 1 schedules. Are there any  
17 particular items that require explanation beyond those contained in the support schedules?

18 **MR. GUASTELLA:** No. The water and sewer revenue requirement components as reflected in  
19 the Phase 1 schedules are routine and explained in the schedules.

20 **MR. WALKER:** Is it your opinion that the management fees also fall within your  
21 characterization as routine?

1 **MR. GUASTELLA:** Yes. The services provided under the management agreement, as  
2 explained by the Company witnesses, are an essential and necessary cost of operating a water  
3 and sewer utility. In my opinion, they are not only reasonable but conservative. While other  
4 costs have dramatically increased in the ten years since the last rate increase, the level of  
5 management fees has remained unchanged. Despite the other cost increases, the overall  
6 projected rate increase is relatively small in terms of average annual increases, part of which is  
7 reasonably attributable to good management. Clearly, the Company has been providing  
8 excellent service that is also attributable to good management. Moreover, when I compared the  
9 Company's payroll expenses in relation to total Operation & Maintenance Expenses with other  
10 utilities, they are significantly lower, see Schedule A-4. The Company's ratio of payroll to total  
11 operation and maintenance expenses is 15.5% as compared with 36.4% for companies in the  
12 Southeast Region, a very impressive statistic because KIU is much smaller than the other  
13 companies. Even if I add \$100,000 of management fees to KIU's \$604,750 payroll expenses, the  
14 ratio of payroll to total operation and maintenance expense is only about 18%. In my opinion,  
15 the Company's management fees are not and should not be noteworthy, except that they are  
16 relatively low, and water and sewer service is nevertheless excellent.

17 It is also worth noting that the ratio of payroll to total operation and maintenance expense  
18 has increased for the other companies since the last case -- it was about 29% for the Southeastern  
19 Region and is not about 36.4%. KIU's ratio was about 19% in the last case, and is now only  
20 15.5%.

21 **MR. WALKER:** In your opinion, are the proposed rate increases for KIU's water and sewer  
22 operations reasonable?

1     **MR. GUASTELLA:** Yes. The proposed rate increases are designed to cover the KIU's cost of  
2     providing water and sewer service, and if approved would give KIU an opportunity to earn a  
3     reasonable operating margin, which is always an important result of a rate increase, and given  
4     the current need to attract a significant amount of new capital, especially necessary now because  
5     it would provide an ability to finance the new water supply main, and likely at a lower cost of  
6     capital.

**7**                               **END OF DIRECT TESTIMONY**

**PROFESSIONAL QUALIFICATIONS AND EXPERIENCE**  
**of**  
**JOHN F. GUASTELLA**

B.S., Mechanical Engineering, Stevens Institute of Technology, 1962, Licensed Professional Engineer.

**Member:**

American Water Works Association, Lifetime Member  
National Association of Water Companies  
New England Water Works Association, Lifetime Member

**Committees:**

AWWA, Water Rates Committee (Manual M-1, 1983 Edition)  
National Association of Regulatory Utility Commissioners (NARUC) and NAWC, Joint-Committee on Rate Design  
NAWC, Rates and Revenues Committee  
NAWC, Small Water Company Committee

Mr. Guastella is President of Guastella Associates, LLC ("formerly John F. Guastella Associates, Inc.") which provides management, valuation and rate consulting services for municipal and investor-owned utilities, as well as regulatory agencies. His clients include utilities in the states of Alaska, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Maine, Maryland, Massachusetts, Missouri, Michigan, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Dakota, Ohio, Pennsylvania, South Carolina, Texas, Rhode Island and Virginia. He has provided consulting services that include all aspects of utility regulation and rate setting, encompassing revenue requirements, revenues, operation and maintenance expenses, depreciation, taxes, return on investment, cost allocation and rate design. He has performed depreciation studies for the establishment of average service lives of utility property. He has performed appraisals of utility companies for management purposes and in connection with condemnation proceedings. He has also negotiated the sale of utility companies.

Mr. Guastella served for more than four years as President of Country Knolls Water Works, Inc., a water utility that served some 5,500 customers in Saratoga County, New York. He also served as a member of the Board of Directors of the National Association of Water Companies.

Mr. Guastella has qualified and testified as an expert witness before regulatory agencies and municipal jurisdictions in the states of Alaska, California, Connecticut, Delaware, Florida, Georgia, Illinois, Indiana, Maryland, Massachusetts, Missouri, Montana, Nevada, New Hampshire, New Mexico, New Jersey, New York, North Dakota, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas and Virginia.

Prior to establishing his own firm, Mr. Guastella was employed by the New York State Public Service Commission for sixteen years. For two years he was involved in the regulation of electric and gas utilities, with the remaining years devoted to the regulation of water utilities. In 1970, he was promoted to Chief of Rates and Finance in the Commission's Water Division. In 1972, he was made Assistant Director of the Water Division. In 1974, he was appointed by Alfred E. Kahn, then Chairman of the Commission, to be Director of the Water Division, a position he held until he resigned from the Commission in August 1978.

At the Commission, his duties included the performance and supervision of engineering and economic studies concerning rates and service of many public utilities. As Director of the Water Division, he was responsible for the regulation of more than 450 water companies in New York State and headed a professional staff of 32 engineers and three technicians. A primary duty was to attend Commission sessions and advise the Commission during its decision making process. In the course of that process, an average of about fifty applications per year would be reviewed and analyzed. The applications included testimony, exhibits and briefs involving all aspects of



utility valuation and rate setting. He also made legislative proposals and participated in drafting Bills that were enacted into law: one expanded the N.Y. Public Service Commission's jurisdiction over small water companies and another dealt specifically with rate regulation and financing of developer-related water systems.

In addition to his employment and client experience, Mr. Guastella served as Vice-Chairman of the Staff-Committee on Water of the National Association of Regulatory Utility Commissioners (NARUC). This activity included the preparation of the "Model Record-Keeping Manual for Small Water Companies," which was published by the NARUC. This manual provides detailed instruction on the kinds of operation and accounting records that should be kept by small water utilities, and on how to use those records.

Each year since 1974 he has prepared study material, assisted in program coordination and served as an instructor at the Eastern Annual Seminar on Water Rate Regulation sponsored over the years by the NARUC in conjunction with the University of South Florida, Florida Atlantic University, the University of Utah, Florida State University, the University of Florida and currently Michigan State University. In 1980 he was instrumental in the establishment of the Western NARUC Rate Seminar and has annually served as an instructor since that time. This course is recognized as one of the best available for teaching rate-setting principles and methodology. More than 5,000 students have attended this course, including regulatory staff, utility personnel and members of accounting, engineering, legal and consulting firms throughout the country.

Mr. Guastella served as an instructor and panelist in a seminar on water and wastewater regulation conducted by the Independent Water and Sewer Companies of Texas. In 1998, he prepared and conducted a seminar on basic rate regulation on behalf of the New England Chapter of the National Association of Water Companies. In 2000 and 2001, Mr. Guastella developed and conducted a special seminar for developer related water and wastewater utilities in conjunction with Florida State University, and again in 2003 in conjunction with the University of Florida. It provided essential training for the financial structuring of small water and wastewater utilities, rate setting, financing and the establishment of their market value in the event of a negotiated sale or condemnation. In 2004, he prepared and conducted a special workshop seminar on behalf of the Office of Regulatory Staff of South Carolina, covering rate setting, valuation and general regulation of water and wastewater utilities. In 2006, he participated in an expert workshop on full cost pricing conducted by the U. S. Environmental Protection Agency in coordination with the Institute of Public Utilities, Michigan State University. In 2006, he prepared and conducted a special seminar on rate setting and valuation on behalf of the New York Chapter of the NAWC. In 2007, he prepared and conducted a special seminar on rate setting and valuation on behalf of the New England Chapter of NAWC.

Mr. Guastella has made presentations on a wide variety of rate, valuation and regulatory issues at meetings of the National Association of Regulatory Utility Commissioners, the American Water Works Association, the New England Water Works Association, the National Association of Water Companies, the New England Conference of Public Utilities Commissioners, the Florida, New England, New Jersey and New York Chapters of NAWC, the Mid-America Regulatory Conference, the Southeastern Association of Regulatory Utility Commissioners, the Pennsylvania Environmental Conference, the Public Utility Law Section of the New Jersey Bar Association, and the NAWC Water Utility Executive Council.

**John F. Guastella**  
**List of Proceedings in which**  
**Expert Testimony**  
**was Presented**

Year	Client	State	Regulatory Docket/Case Number
1966	Sunhill Water Corporation	New York	23968
1967	Amagansett Water Company	New York	24210
1967	Worley Homes, Inc.	New York	24466
1968	Amagansett Water Company	New York	24718
1968	Amagansett Water Company	New York	24883
1968	Sunhill Water Corporation	New York	23968
1968	Worley Homes, Inc.	New York	Supreme Court
1969	Amagansett Water Supply	New York	24883
1969	Citizens Water Supply Co.	New York	25049
1969	Worley Homes, Inc.	New York	24466/24992
1970	Brooklyn Union Gas Company	New York	25448
1970	Consolidated Edison of New York	New York	25185
1971	Hudson Valley Water Companies	New York	26093
1971	Jamaica Water Supply Company	New York	26094
1971	Port Chester Water Works, Inc.	New York	25797
1971	U & I Corp. - Merrick District	New York	26143
1971	Wanakah Water Company	New York	25873
1972	Spring Valley Water Company	New York	26226
1972	U & I Corp. - Woodhaven District	New York	26232
1973	Citizens Water Supply Company	New York	26366
1978	Rhode Island DPU&C (Bristol County)	Rhode Island	1367A
1979	Candlewick Lake Utilities Co.	Illinois	76-0218
1979	Candlewick Lake Utilities Co.	Illinois	76-0347
1979	Candlewick Lake Utilities Co.	Illinois	78-0151
1979	Jacksonville Suburban Utilities	Florida	770316-WS
1979	New York Water Service Corporation	New York	27594
1979	Salem Hills Sewerage Disposal Corp. v. V. of Voorheesville	New York	Supreme Court
1979	Seabrook Water Corporation	New Jersey	7910-846
1979	Southern Utilities Corporation	Florida	770317-WS
1979	Township of South Brunswick	New Jersey	Municipal
1979	Westchester Joint Water Works	New York	Municipal
1979	Woodhaven Utilities Corporation	Illinois	77-0109
1980	Crestwood Village Sewer Company	New Jersey	BPU 802-78
1980	Crestwood Village Water Company	New Jersey	BPU 802-77
1980	Gateway Water Supply Corporation	Texas	Municipal
1980	GWV-Central Florida District	Florida	800084-WS
1980	Jamaica Water Supply Company	New York	27587
1980	Rhode Island DPU&C (Newport Water)	Rhode Island	1480
1981	Briarcliff Utilities, Inc.	Texas	3620
1981	Candlewick Lake Utilities Co.	Illinois	81-0011
1981	Caroline Water Company, Inc.	Virginia	810065
1981	GDU, Inc. - Northport	Florida	Municipal
1981	GDU, Inc. - Port Charlotte	Florida	Municipal
1981	GDU, Inc. - Port Malabar	Florida	80-2192
1981	Hobe Sound Water Company	Florida	8000776
1981	Lake Buckhorn Utilities, Inc.	Ohio	80-999
1981	Lake Kiowa Utilities, Inc.	Texas	3621
1981	Lakengren Utilities, Inc.	Ohio	80-1001
1981	Lorelei Utilities, Inc.	Ohio	80-1000
1981	New York Water Service Corporation	New York	28042
1981	Rhode Island DPU&C (Newport Water)	Rhode Island	1581
1981	Shawnee Hills Utility Company	Ohio	80-1002
1981	Smithville Water Company, Inc.	New Jersey	808-541
1981	Spring Valley Water Company, Inc.	New York	27936
1981	Spring Valley Water Company, Inc.	New York	27936
1981	Sunhill Water Corporation	New York	27903
1981	Swan Lake Water Corporation	New York	27904
1982	Chesterfield Commons Sewer Company	New Jersey	822-84
1982	Chesterfield Commons Water Company	New Jersey	822-83
1982	Crescent Waste Treatment Corp.	New York	Municipal
1982	Crestwood Village Sewer Company	New Jersey	821-33
1982	Crestwood Village Water Company	New Jersey	821-38
1982	Salem Hills Sewerage Disposal Corp.	New York	Municipal
1982	Township of South Brunswick	New Jersey	Municipal
1982	Woodhaven Utilities Corporation	Illinois	82-0167
1983	Country Knolls Water Works, Inc.	New York	28194
1983	Heritage Hills Water Works Corp.	New York	28453
1984	Crestwood Village Sewer Company	New Jersey	8310-861
1984	Crestwood Village Water Company	New Jersey	8310-860
1984	Environmental Disposal Corp.	New Jersey	816-552
1984	GDU, Inc. - Port St. Lucie	Florida	830421
1984	Heritage Village Water (water/sewer)	Connecticut	84-08-03
1984	Hurley Water Company, Inc.	New York	28820
1984	New York Water Service Corporation	New York	28901
1985	Deltona Utilities (water/sewer)	Florida	830281
1985	J. Filiberto Sanitation, Inc.	New Jersey	8411-1213
1985	Sterling Forest Pollution Control	New York	Municipal
1985	Water Works Enterprise, Grand Forks	North Dakota	Municipal
1986	GDU, Inc. - Port Charlotte	Florida	Municipal
1986	GDU, Inc. - Sebastian Highlands	Florida	Municipal

**John F. Guastella**  
**List of Proceedings in which**  
**Expert Testimony**  
**was Presented**

Year	Client	State	Regulatory Docket/Case Number
1986	Kings Grant Water/Sewer Companies (settled)	New Jersey	WR8508-868
1986	Mt. Ebo Sewage Works, Inc.	New York	Municipal
1986	Sterling Forest Pollution Control	New York	Municipal
1987	Country Knolls Water Works, Inc.	New York	29443
1987	Crestwood Village Sewer Co. (settled)	New Jersey	WR8701-38
1987	Deltona Utilities - Marco Island	Florida	850151-WS
1987	Deltona Utilities, Inc. - Citrus Springs (settled)	Florida	870092-WS
1987	First Brewster Water Corp. v. Town of Southeast (settled)	New York	Supreme Court
1987	GDU, Inc. - Silver Springs Shores	Florida	870239-WS
1987	Ocean County Landfill Corporation	New Jersey	SR-8703117
1987	Palm Coast Utility Corporation	Florida	870166-WS
1987	Sanlando Utilities Corp. (settled)	Florida	860683-WS
1987	Township of South Brunswick	New Jersey	Municipal
1987	Woodhaven Utilities Corp. (settled)	Illinois	87-0047
1988	Crescent Estates Water Co., Inc.	New York	88-W-035
1988	Elizabethtown Water Co.	New Jersey	OAL PUC3464-88
1988	Heritage Village Water Company	Connecticut	87-10-02
1988	Instant Disposal Service, Inc.	New Jersey	SR-87080864
1988	J. Filiberto Sanitation v. Morris County Transfer Station	New Jersey	01487-88
1988	Ohio Water Service Co.	Ohio	86-1887-WW-CO1
1988	St. Augustine Shores Utilities	Florida	870980-WS
1989	Elizabethtown Water Co.	New Jersey	BPU WR89020132J
1989	GDU (FPSC generic proceeding as to rate setting procedures)	Florida	880883-WS
1989	Gordon's Corner Water Co.	New Jersey	OAL PUC479-89
1989	Heritage Hills Sewage Works	Connecticut	Municipal
1989	Heritage Village Water Company	Connecticut	87-10-02
1989	Palm Coast Utility Corporation	Florida	890277-WS
1989	Southbridge Water Supply Co.	Massachusetts	DPU 89-25
1989	Sterling Forest Water Co.	New York	PSC 88-W-263
1990	American Utilities, Inc. - United States Bankruptcy Court	New Jersey	85-00316
1990	City of Carson City	Nevada	Municipal
1990	Country Knolls Water Works, Inc.	New York	90-W-0458
1990	Elizabethtown Water Company	New Jersey	WR900050497J
1990	Kent County Water Authority	Rhode Island	1952
1990	Palm Coast Utility Corporation	Florida	871395-WS
1990	Southern States Utilities, Inc.	Florida	Workshop
1990	Trenton Water Works	New Jersey	WR90020077J
1990	Waste Management of New Jersey	New Jersey	SE 87070552
1990	Waste Management of New Jersey	New Jersey	SE 87070566
1991	City of Grand Forks	North Dakota	Municipal
1991	Gordon's Corner Water Co.	New Jersey	OAL PUC8329-90
1991	Southern States Utilities, Inc.	Florida	900329-WS
1992	Elizabethtown Water Co.	New Jersey	WR 91081293J
1992	General Development Utilities, Inc. - Port Malabar Division	Florida	911030-WS
1992	General Development Utilities, Inc. - West Coast Division	Florida	911067-WS
1992	Heritage Hills Water Works, Inc.	New York	92-2-0576
1993	General Development Utilities, Inc. - Port LaBelle Division	Florida	911737-WS
1993	General Development Utilities, Inc. - Silver Springs Shores	Florida	911733-WS
1993	General Waterworks of Pennsylvania - Dauphin Cons. Water Supply	Pennsylvania	R-00932604
1993	Kent County Water Authority	Rhode Island	2098
1993	Southern States Utilities - FPSC Rulemaking	Florida	911882-WS
1993	Southern States Utilities - Marco Island	Florida	920655-WS
1994	Capital City Water Company	Missouri	WR-94-297
1994	Capital City Water Company	Missouri	WR-94-297
1994	Elizabethtown Water Company	New Jersey	WR94080346
1994	Elizabethtown Water Company	New Jersey	WR94080346
1994	Environmental Disposal Corp.	New Jersey	WR94070319
1994	General Development Utilities - Port Charlotte	Florida	940006-WS
1994	General Waterworks of Pennsylvania	Pennsylvania	R-00943152
1994	Hoosier Water Company - Mooresville Division	Indiana	39839
1994	Hoosier Water Company - Warsaw Division	Indiana	39838
1994	Hoosier Water Company - Winchester Division	Indiana	39840
1994	West Lafayette Water Company	Indiana	39841
1994	Wilmington Suburban Water Corporation	Delaware	94-149 (stld)
1995	Butte Water Company	Montana	Cause 90-C-90
1995	Heritage Hills Sewage Works Corporation	New York	Municipal
1996	Consumers Illinois Water Company	Illinois	95-0342
1996	Elizabethtown Water Company	New Jersey	WR95110557
1996	Palm Coast Utility Corporation	Florida	951056-WS
1996	PenPac, Inc.	New Jersey	OAL-00788-93N
1996	Southern States Utilities, Marco Island	Florida	950495-WS
1997	Crestwood Village Water Company	New Jersey	BPU 96100739
1997	Indiana American Water Co., Inc.	Indiana	IURC 40703
1997	Missouri-American Water Company	Missouri	WR-97-237
1997	South County Water Corp	New York	97-W-0667
1997	United Water Florida	Florida	960451-WS
1998	Consumer Illinois Water Company	Illinois	98-0632
1998	Consumers Illinois Water Company	Illinois	97-0351
1998	Heritage Hills Water Company	New York	97-W-1561
1998	Missouri-American Wastewater Company	Missouri	SR-97-238

**John F. Guastella**  
**List of Proceedings in which**  
**Expert Testimony**  
**was Presented**

Year	Client	State	Regulatory Docket/Case Number
1999	Consumers Illinois Water Company	Illinois	99-0288
1999	Environmental Disposal Corp.	New Jersey	WR99040249
1999	Indiana American Water Co., Inc.	Indiana	IURC 41320
2000	South Haven Sewer Works, Inc.	Indiana	Cause: 41410
2000	Utilities Inc. of Maryland	Maryland	CAL 97-17811
2001	Artesian Water Company	Delaware	00-649
2001	Citizens Utilities Company	Illinois	01-0001
2001	Elizabethtown Water Company	New Jersey	WR-0104205
2001	Kiawah Island Utility, Inc.	South Carolina	2001-164-W/S
2001	Placid Lakes Water Company	Florida	011621-WU
2001	South Haven Sewer Works, Inc.	Indiana	41903
2001	Southlake Utilities, Inc.	Florida	981609-W/S
2002	Artesian Water Company	Delaware	02-109
2002	Consumers Illinois Water- Grant Park	Illinois	02-0480
2002	Consumers Illinois Water- Village Woods	Illinois	02-0539
2002	Valencia Water Company	California	02-05-013
2003	Consumers Illinois Water - Indianola	Illinois	03-0069
2003	Elizabethtown Water Company	New Jersey	WR-030-70510
2003	Golden Heart Utilities, Inc.	Alaska	U-02-13, 14 & 15
2003	Utilities, Inc. - Georgia	Georgia	CV02-0495-AB
2004	Aquarion Water Company	Connecticut	04-02-14
2004	Artesian Water Company	Delaware	04-42
2004	El Dorado Utilities, Inc.	New Mexico	D-101-CU-2004-
2004	Environmental Disposal Corp.	New Jersey	DPU WR 03 070509
2004	Heritage Hills Water Company	New York	03-W-1182
2004	Sun Valley Water & Washoe County Dept. of Water Revenues	Nevada	TMWA Municipal
2004	Jersey City MUA	New Jersey	Municipal
2004	Rockland Electric Company	New Jersey	EF02110852
2005	Aquarion Water Company	New Hampshire	DW 05-119
2005	Intercoastal Utilities, Inc.	Florida	04-0007-0011-0001
2005	Halg Point Utility Company, Inc.	South Carolina	2005-34-W/S
2005	South Central Connecticut Regional Water Auth.	Connecticut	Municipal
2006	Pennichuck Water Works, Inc.	New Hampshire	DW-04048
2006	Village of Williston Park	New York	Municipal
2006	Jersey City MUA	New Jersey	Municipal
2006	Groton Utilities	Connecticut	Municipal
2006	Connecticut Water Company	Connecticut	06-07-08
2006	Birmingham Utilities, Inc.	Connecticut	06-05-10
2006	Aqua Florida Utilities, Inc.	Florida	060368-W/S
2007	Aquarion Water Company of CT	Connecticut	07-05-19
2007	Pennichuck Water Works, Inc.	New Hampshire	DW 04-048
2007	Aqua Indiana - Utility Center	Indiana	43331
2007	Environmental Disposal Corp.	New Jersey	WR 04 080760
2007	Aqua Florida Utilities, Inc.	Florida	07-0183
2007	Aqua Illinois, Inc. - Hawthorn Woods, Willowbrook & Vermilion	Illinois	07-0620/07-0621/08-0067
2008	Aqua Florida Utilities, Inc.	Florida	080121-W/S
2008	Aquarion Water Company of MA	Massachusetts	D.P.U. 08-27
2008	Halg Point Utility Company, Inc.	South Carolina	2007-414-W/S
2009	R.M.V. Land & C.M. Livestock, L.C.C.	New Jersey	EM02050313
2010	City of Griffin	Georgia	Civil Action No. 09V-2866
2010	Connecticut Water Company	Connecticut	09-12-11
2010	Montville WPCA	Connecticut	1400012464
2010	Milford Water Company	Massachusetts	DPU 10-78
2010	Arizona American Water Company	Arizona	W-01303A-10-0448
2011	Aqua Illinois	Illinois	ICC Docket (Consolidated)
2011	Artesian Water Company	Maryland	MPSC Case 9252

## Papers and Presentations

By

John F. Guastella

Year	Title	Forum
1974 through 2011	1. Basics of Rate Setting 2. Cost Allocation and Rate Design 3. Revenue Requirements	Semi-annual seminars on utility rate regulation, National Association of Regulatory Utility Commissioners, sponsored by the University of South Florida, the University of Utah, Florida State University, The University of Florida and currently Michigan State University
1974	Rate Design Studies: A Regulatory Point-of-View	Annual convention of the National Association of Water Companies, New Haven, Connecticut
1976	Lifeline Rates	Annual convention of the National Association of Water Companies, Chattanooga, Tennessee
1977	Regulating Water Utilities: The Customers' Best Interest	Annual symposium of the New England Conference of Public Utilities Commissioners, Mystic Seaport, Connecticut
1978	Rate Design: Preaching v. Practice	Annual convention of the National Association of Water Companies, Baton Rouge, Louisiana
1979	Small Water Companies	Annual symposium of the New England Conference of Public Utilities Commissioners, Newport, Rhode Island
1979	Rate Making Problems Peculiar to Private Water and Sewer Companies	Special educational program sponsored by Independent Water and Sewer Companies of Texas, Austin, Texas
1980	Water Utility Regulation	Annual meeting of the National Association of Regulatory Utility Commissioners, Houston, Texas
1981	The Impact of Water Rates on Water Usage	Annual Pennsylvania Environmental Conference, Harrisburg, Pennsylvania
1981	A Realistic Approach to Regulating Water Utilities	Mid-America Regulatory Conference, Clarksville, Indiana
1982	Issues in Water Utility Regulation	Annual symposium of the New England Conference of Public Utilities Commissioners, Rockport, Maine
1982	New Approaches to the Regulation of Water Utilities	Southeastern Association of Regulatory Utility Commissioners, Asheville, North Carolina
1983	Allocating Costs and Revenues Fairly and Effectively	Maryland Water and Sewer Finance Conference, Westminster, Maryland
1983	Lifeline and Social Policy Pricing	Annual conference of the American Water Works Association, Las Vegas, Nevada (published)
1984	The Real Cost of Service: Some Special Considerations	Annual New Jersey Section AWWA Spring Meeting, Atlantic City, New Jersey
1987	Margin Reserve: It's Not the Issue	Florida Waterworks Association Newsletter, April/May/June 1987 issue
1987	A "Current" Issue: CIAC	NAWC - New England Chapter November 6, 1987 meeting
1988	Small Water Company Rate Setting: Take It or Leave It	NAWC - New York Chapter June 14, 1988 meeting
1989	The Solution to all the Problems of Good Small Water Companies	NAWC Quarterly magazine, Winter issue
1989	Current Issues Workshop - Panel	New England Conference of Public Utilities Commissioners, Kennebunkport, Maine
1991	Alternative Rate Structures	New Jersey Section 1991 Annual Conference, AWWA, Atlantic City, New Jersey
1994	Conservation Impact on Water Rates	New England NAWC and New England AWWA, Sturbridge, Massachusetts

## Papers and Presentations

By

John F. Guastella

Year	Title	Forum
1996	Utility Regulation - 21st Century	NAWC Annual Meeting, Orlando, Florida
1997	Current Status Drinking Water State Revolving Fund	NAWC Annual Meeting, San Diego, California
1998	Small Water Companies - Problems and Solutions	NAWC Annual Meeting, Indianapolis, Indiana
1998	Basic Rate Regulation Seminar	New England Chapter - NAWC, Rockport, Maine
2000	Developer Related Water and Sewer Utilities Seminar	Florida State University, Orlando, Florida
2001	Developer Related Water and Sewer Utilities Seminar	Florida State University, Orlando, Florida
2002	Regulatory Cooperation - Small Company Education	New England Chapter - NAWC, Annual Meeting
2003	Developer Related Water and Sewer Utilities Seminar	University of Florida, Orlando, Florida
2004	Basic Regulation & Rate Setting Training Seminar	Office of Regulatory Staff, Columbia, South Carolina
2005	Municipal Water Rates	Nassua-Suffolk Water Commissioners Association, Franklin Square, New York
2005	Innovations in Rate Setting and Procedures	NAWC New York Chapter, West Point, New York
2006	Basics of Rate Setting	The Connecticut Water Company, Clinton, Connecticut
2006	Innovations in Rate Setting and Procedures	NAWC New York Chapter, Catskill, New York
2006	Best Practices as Regulatory Policy	NAWC New England Chapter, Ogunquit, Maine
2006	Rate and Valuation Seminar	NAWC New York Chapter
2006	Full Cost Pricing	U.S. Environmental Protection Agency Expert Workshop, Lansing, Michigan
2006	Innovations in Rate Setting	NAWC New England Chapter, Portsmouth, New Hampshire
2007	Weather Sensitive Customer Demands	NAWC Water Utility Executive Council, Half Moon Bay, California
2007	Basics of Rate Setting and Valuation Seminar	NAWC New England Chapter, Ogunquit, Maine
2007	Small Company Characteristics	National Drinking Water Symposium, La Jolla, California